



Husqvarna
Group



ANNUAL REPORT 2019

Shaping great experiences

Shaping great experiences

We make a great difference to people who shape green spaces and urban environments through our leadership in sustainable, user-centered solutions. With a passion for innovation, we create performance, pride and improved results for customers around the world.



Cover image:

In 2019, the Husqvarna EPOS™ technology was launched, a satellite-based solution for professional robotic mowing with virtual boundaries.

The formal Annual Report, including the Directors' Report and the financial statements for the Group and the Parent Company, is provided on pages 41–110.

To learn more about Husqvarna Group's sustainability initiatives, see the Sustainovate Progress report 2019.



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Passion for innovation

Husqvarna Group is a leading global producer of outdoor power products for forest, park and garden care, watering products and cutting and surface preparation equipment for the construction business. With a passion for innovation, we create performance, pride and improved results for customers.

Important events in 2019

- Introduced Husqvarna EPOS™ (Exact Positioning Operating System) satellite-based technology that enables robotic mowing with virtual boundaries.
- Presented updated strategy and financial targets at a Capital Markets Day.
- Strong growth in digital applications Gardena Smart System, Automower® Connect and Husqvarna Fleet Services™. In total, over 300,000 connected devices are now being managed on the digital services platforms.
- Strengthened the customer offering in surface preparation by acquiring a concrete power trowel business.

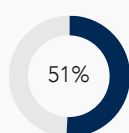
New President & CEO

Henric Andersson has been appointed President & CEO effective as of April 2, 2020. Henric is currently President of the Construction Division and has been a member of Group Management since 2012 and worked in the Group for the last 22 years. He was born in 1973 and has a Master of Science degree in Industrial Engineering & Management from Linköping Institute of Technology.

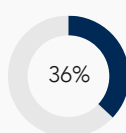


Sales distribution

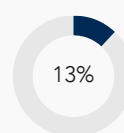
Global presence in attractive markets with steady underlying growth.



Europe
Share of Group
net sales



North America
Share of Group
net sales



Rest of the world
Share of Group
net sales

2019 IN FIGURES (2018 IN BRACKETS)

42.3

Net sales, SEKbn
(41.1)

3.9

Operating income
excluding items affecting
comparability, SEKbn
(3.2)

9.3

Operating margin
excluding items affecting
comparability, %
(7.9)

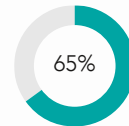
The divisions

Husqvarna Group has three divisions that focus on premium products and services with leading brands.



Husqvarna

A leader in forest and garden products. The undisputed market leader in robotic lawn mowers.

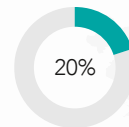


Share of Group net sales



Gardena

A leader in watering products, garden hand tools and smart garden systems.

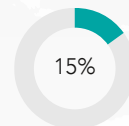


Share of Group net sales



Construction

A leader in light construction solutions for professionals.



Share of Group net sales

12.7

Average number of employees, thousands (13.2)

–45

CO₂ emission intensity reduction, % (–21)

–24

Absolute CO₂ emission reduction from product use, % (–8)

Ready for the **next phase** of our growth journey

Over the past few years, we have successfully developed and strengthened the company's competitiveness by making substantial changes to our business focusing on profitability and growth. I can say that Husqvarna Group is now well-positioned, focused and ready to take the next step in our journey toward industry-leading growth and profitability.

Our transformation journey in recent years has involved major investments in new technologies, customer focus and sustainability, which in combination with efficiency improvements across the organization, have created the conditions for us to become a market and technology leader in our industry. We have clearly strengthened our technological capacity and capability in such areas as robotics, the Internet of Things (IoT) and software development. In total, we have added approximately 300 employees in these fields of expertise alone. In recent years, we have successfully balanced investments in strategic growth areas with efficiency programs in our existing operations.

Equally important was the decision to concentrate our efforts on clearly defined end-customer segments and our core brands, Husqvarna and Gardena. A direct consequence of this decision was the dissolution and discontinuation of business in our financially underperforming Consumer Brands Division in 2018. This allowed us to shift our focus to growth opportunities in the Husqvarna, Gardena and Construction divisions. This restructuring led us to exit unprofitable product segments in 2019 and other low margin business will be exited in 2020. We have accordingly adapted our manufacturing capacity to the lower volumes. I can confirm that these measures were successful and that they contributed to our improved results during the year.

Positive earnings trend in 2019

Group net sales increased 3%¹ to SEK 42,277m during the year. The vast majority of the Group's offerings are directed to the forest and garden market, which presented a few challenges during the year. Following strong sales growth in the first quarter, the second quarter – which is the seasonally most important – started on a cautious note in Europe. During the second half-year, we experienced weaker demand in the US. We managed the temporary market challenges effectively and sales increased during the year. This also confirms the importance of strong brands, a customer-focused offering and investments in growth segments.

During the year, we improved the Group's profitability. All divisions delivered earnings growth, with the Gardena Division showing particularly strong performance. Combined with growth, efforts in both price adjustments and efficiencies in the divisions were the main reasons for the Group's improvement as well as currency effects. In the fourth quarter, we announced

further measures to reduce our cost base, mainly in the Husqvarna Division.

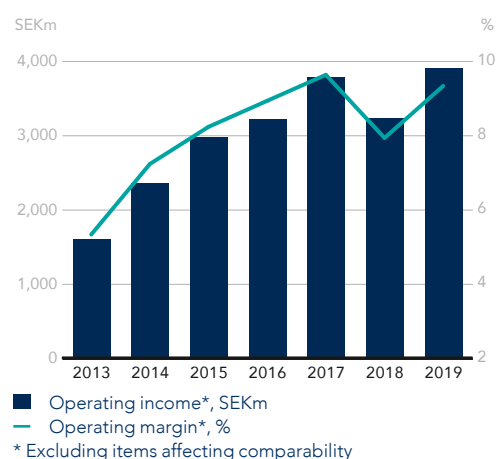
Operating income, excluding items affecting comparability, rose 21% to SEK 3,915m. Direct operating cash flow improved to SEK 3,849m (1,336) driven by strong cash flow from operations as well as from activities to improve working capital. The operating margin was 9.3% (7.9). In light of the temporary market headwinds throughout some parts of the year and the fact that we continued to invest in key growth areas, the margin improvement clearly demonstrates that our efforts to improve profitability were successful, even though we didn't reach our financial target of a 10% operating margin.

Higher ambitions for Sustainability

We are convinced that credible market leadership also requires sustainability leadership. We integrate sustainability in our operations through our Sustainovate program. This has been an integral part of the transformation journey that has led us to where we are today. Investments in battery technologies, robotics and smart connected solutions are just a few examples.

Over the past three years, we have shown that we can decouple CO₂ emissions from our own sales growth. I can proudly say that our results have outperformed our commitments and thereby reduced absolute CO₂ emissions by 25%². Thanks to the success of these efforts, we have now refined our target to even faster emission reductions to support the new, higher

Profitability improvement



¹ Growth in reported currency, SEK

² Absolute CO₂ reduction across value chain was 25% with baseline year 2015. Corresponding reduction for product use was 24%.

ambitions of the Science-based targets Initiative to limit the global temperature increase to 1.5°C.

The Group's sustainability ambitions extend beyond reducing greenhouse gas emissions. In connection with the review of our Sustainovate strategy in the autumn, we also set ambitious targets in areas related to a circular economy and for how we can make it easier for people to make sustainable choices – for our users as well as internally within the Group.

Shaping great experiences – the next phase

The world is changing faster than ever. The strategy for the next phase of Husqvarna Group's development clearly reflects that we are ready to embrace the megatrends that are shaping our world – from technology development and climate change to changing customer values. The key elements of our strategy are a focus on customer experience, services and solutions, robotics and battery technologies, and the continuous development of our core offering. Dedicated efforts in these areas will provide the conditions for delivering growth corresponding to 2 percentage points above the market in general, which is the Group's new growth target. At the same time, we will build on our culture of continuous cost optimization and strategic growth initiatives, alongside improved profitability in line with our new operating margin target of at least 10%.

New services to enhance customer experience

We have established a clear end-customer focus where we develop offerings and services based on prioritized customer segments. Passion for innovation is a key element of Husqvarna Group's culture and we see it as a basic requirement for market leadership. Innovation is not just isolated to software, hardware and connected products. The combined development of new business models and services is just as important. The aim is to strengthen the customer experience throughout the entire lifecycle of a product while also moving closer to our end-users. In this respect, we can benefit from the fact that we already have more than 300,000 connected products and users.

Leading in robotics and battery technologies

Our ambition is to continue leading the development of robotic lawn mowers and battery-powered products and ecosystems. We are focused on leveraging the potential in the fast-growing consumer market for robotic lawn mowers, in both established markets such as Europe and in newer markets such as North America, which is the largest lawn and garden market in the world. We are the market leader with a strong and differentiated offering of robotic lawn mowers and software. During the year, we had a highly successful launch of the world's first all-wheel-drive (AWD) robotic lawn mower, which provides superior cutting results for even the most complex lawns.

We are also making a strategically important investment in the professional customer market segment. Our latest innovation, EPOS™, enables robotic lawn mowers to work within virtual, and therefore flexible, boundaries. EPOS™ offers significant value for professional customers managing commercial lawns and gardens, urban parks, sports fields and other green spaces.

A strong core offering

Husqvarna Group has a strong and profitable core offering in the Husqvarna, Gardena and Construction divisions. Some examples are our leading market position in chainsaws, watering solutions and concrete cutting equipment. We will continue developing our brands through go-to market concepts, continue with innovation and a focus on aftermarket services to create an even better user experience. Success in our core business creates conditions for increased profitability, and for financing strategic growth initiatives in new areas.



Positioned for profitable growth

Husqvarna Group's transformation journey over the past years would not have been possible without our professional and dedicated employees. I would like to thank everyone for their invaluable contributions along the way. As the next phase now begins, I can say that Husqvarna Group is well positioned to achieve industry-leading growth and profitability. The new strategies and targets provide a clear roadmap and it will surely be an exciting journey ahead delivering winning customer experiences and solid financial results. In January, we announced that Henric Andersson will take over as President and CEO, starting in April, 2020. I am very pleased to hand over to Henric. He brings a strong customer driven business development based on a deep competence and experience in the Group.

Kai Wärn
President & CEO



CHAPTER 02 / 08

Market and trends



As a leading global supplier of forest, lawn and garden care as well as construction products, the Group is impacted by several megatrends that present both opportunities and challenges. The market has a steady growth rate and includes several attractive high-growth segments.

Global trends are shaping the market

A globalized and technology-driven world, demographic shifts and humankind's impact on the environment and resources. These megatrends set the direction of how society and markets are evolving. Adopting an outside-in perspective helps ensure that the Group's strategy remains relevant and sustainable.



Speed of technology

Digitalization and rapid development of new technologies are impacting all parts of the society and companies in all industries. Digitalization opens opportunities for new solutions and business models. At the same time, it requires the Group to adjust to rapidly evolving consumer expectations.

Digitalization and new technology are transforming the way products and services are developed, produced, distributed, supported and shared. For example, new battery technologies are making batteries a viable alternative for energy storage in a wide range of industries.

HUSQVARNA GROUP'S APPROACH

In 2019, Husqvarna Group invested SEK 1.7bn in research and development, a large part of which related to prioritized technology fields, such as software development, battery and robotic technology and energy efficiency. The purpose is to strengthen the company's leading position, not the least within robotic lawn mowers, battery-powered products and smart gardening systems. This also allows for opportunities to create unique user experiences through connectivity, reduce the Group's impact on the environment and use of resources and to develop new functionality and services.

Digitalization is an important tool for achieving efficiency gains in the Group's supply chain. One example is the use of automation and artificial intelligence in production, which improves quality, resource use and productivity.



Climate change and resource scarcity

Raised awareness levels of the urgency of addressing climate change is influencing society at all levels—from more stringent regulation on energy consumption, to raised priorities in investment and purchasing decisions.

Increasingly, investors seek investment opportunities that contribute to solving the climate challenge and expect their investment universe to address both their short and long-term climate risks. Companies are prioritizing equipment investments that support the transition to renewable energy sources, or that have a lower climate impact. Consumers, in turn, are demanding more sustainable products.

HUSQVARNA GROUP'S APPROACH

Husqvarna Group has a responsibility to address its climate risks and has an opportunity to take a leading role by supporting the transition to a low-carbon energy mix.

The Group has demonstrated that it can reduce CO₂ and build its business at the same time, thereby decoupling CO₂ emissions from the Group's growth strategy. With Sustainovate 2025 – the updated sustainability approach – the level of ambition has been raised further. The Group's CO₂ target is to decrease absolute emissions 35 percent by 2025 across the value chain, compared to 2015 emissions levels.

The Group is addressing other sustainability issues through innovative solutions as well. Gardena Division, for example, has launched products to help consumers reduce water consumption.



Urbanization and new customer groups

Some 70 percent of the world's population is expected to live in cities by 2050, compared with 55 percent in 2018¹.

The rapid economic growth of the past 25 years has meant that an increasing share of the world population is experiencing better economic prosperity. By 2030, global middle-class spending is projected to triple. In Europe and North America, people over 55 years will account for a larger share of the population than those under 18.

HUSQVARNA GROUP'S APPROACH

Husqvarna Group is continuously developing its product offering to make it more specialized, quiet and energy efficient, which makes it well suited to an urban lifestyle. The Gardena City Gardening product line is one example of a range of products that specifically addresses the needs of urban customers.

A growing middle class with increased purchasing power offers greater market potential in emerging markets. The Group is meeting these changing market demands by expanding in those markets. These are important growth markets, for instance for the Construction Division, which aims to benefit from the potential increase in construction investments in the ever-more urbanized regions of Asia.

The Group has a continued strong focus on robotic lawn mowers, which are well suited to meet the needs of an aging population, given the robots' ability to facilitate and carry out tasks that can be a burden for older users.



Shifting consumer values and purchasing behavior

Consumers' purchasing decisions are increasingly guided by sustainability, ethics, individualism and expression as well as whether a product or service is smart and connected or easy and affordable. Their curiosity about sharing rather than owning products could potentially grow the market for new business models.

Digitalization has also entailed a shift in power toward consumers. People are better informed and can easily obtain information about product functionality online. The structure of the retail trade is undergoing rapid change and global e-commerce is forecast to report strong growth in the future.

HUSQVARNA GROUP'S APPROACH

The Group currently has more than 300,000 connected products. The Group aims to strengthen the user experience and develop closer ties between end-users and the company for instance by developing new services and utilizing connectivity. The Group is also exploring new business models linked to the sharing economy. Husqvarna Tools For You is one example where consumers use a smart phone app to lease battery powered garden tools and pay for the time they use them.

Husqvarna Group is also striving to increase its online presence. The purpose is to strengthen communication and interaction with end-users and to increase the sale of products, spare parts, accessories and value-added services.

¹ (UN) World Urbanization Prospects: The 2018 revision.

Attractive markets with favorable growth opportunities

Husqvarna Group is active in attractive markets that historically have shown a steady growth rate of around 2 to 3 percent annually. The Group sees good growth opportunities in areas where new technologies enjoy increasing acceptance, including robotic lawn mowers, battery-powered and connected products.

Market for the Husqvarna and Gardena divisions

The global forest and garden markets are characterized as mature with stable growth rates in line with GDP. The market also offers attractive growth opportunities for products based on new technology, such as robotic lawn mowers, smart garden systems and battery-powered products. The addressable market for forest, lawn and garden products in regions and segments in which Husqvarna Group is represented is estimated at around SEK 200bn.

Demand is mainly driven by general economic growth factors. Consumer purchasing power and consumer confidence, employment levels and housing starts are examples of economic indicators. There is strong acceptance of new technology and product innovation in the market, which also supports the growing demand. In addition, weather conditions in a given year can impact the gardening season and thus affect demand both positively and negatively.

GEOGRAPHIC MARKETS

Europe and North America are the largest markets and together account for around 80 percent of the global market in terms of value. Consumers in many of the larger markets outside of Europe and North America do not have the same conditions to garden due to higher population density, different gardening traditions and their purchasing power is generally lower,

which explains why these consumer segments remain relatively small. Demand is instead mainly driven by commercial end-users and these markets are growing steadily.

MARKET SEGMENTS

The largest segment in terms of market value is the wheeled segment including walk-behind and ride-on lawn mowers followed by the handheld segment, of which the largest categories are chainsaws and trimmers.

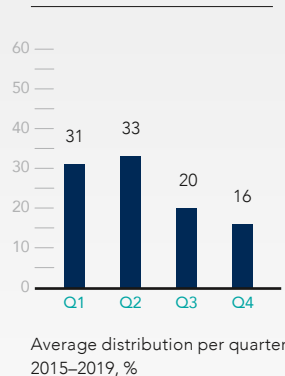
Traditionally, the forest and garden market has been dominated by petrol-powered products. The proportion of battery-powered products is increasing as new battery technology and innovations are introduced. These now represent almost 10 percent of the total market. The fastest growing product categories comprise robotic lawn mowers and battery-powered products, such as handheld trimmers, hedge cutters and chainsaws.

The market for robotic lawn mowers is largely concentrated in the consumer segment in western Europe. Awareness of and demand for robotic lawn mowers in other markets such as North America is rising and is considered to have major future growth potential. Another segment that today is relatively small but has significant growth potential is robotic lawn mowers for commercial use, such as for sports fields and golf courses, lawns in commercial areas, hotels and parks.

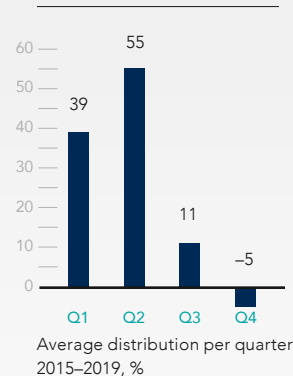
Seasonality

Forest and garden products, which represent around 85 percent of the Group's total sales, are highly seasonal due to end-user buying patterns. The majority of volumes are sold during the spring and summer when most lawn care and gardening activities take place. Because the main markets are located in the Northern hemisphere, sales are highest toward the end of the first quarter and in the second quarter. The third quarter generally marks the end of the gardening season, given average weather patterns. Demand for forest products tends to be somewhat higher during the second half of the year. For construction products, demand is fairly evenly distributed over the year.

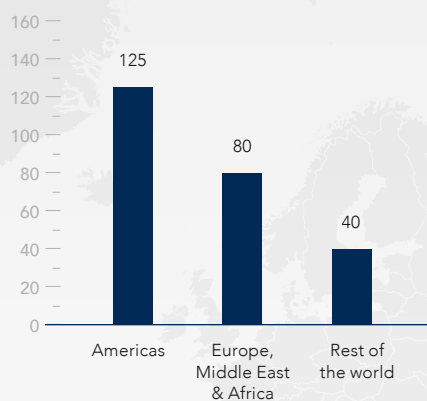
Net sales



Operating income

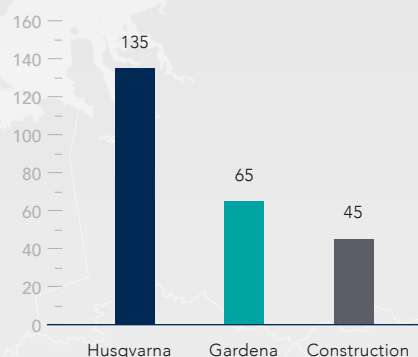


Market value by geography



Estimated value of the market by geography, SEKbn

Market value by division



Estimated value of the market by division, SEKbn

Market for the Construction Division

The Construction Division's offering targets professionals in the global construction (primarily rebuilding/refurbishment) and stone industries. Underlying market growth is normally slightly above GDP (historically at approximately 3 percent). Demand correlates with the development of the construction industry, which is traditionally characterized by cyclical fluctuations. The main geographical markets are North America and Europe, both of which are well developed and established markets. Demand in emerging markets is growing faster and is driven by an expanding building and construction market, which is also becoming increasingly mechanized over time.

A large share of the market consists of consumables and aftermarket services. Demand for these is steadily growing and is impacted to a lesser degree by economic fluctuations. The market for the Construction Division's offering is estimated at about SEK 45bn.

Customers and distribution

The Group sells forest, park and garden products to more than 25,000 dealers and leading retailers worldwide. Of the total market, dealers represent around 35 percent. They primarily sell products in the high-performance segments to professional users and pro-grade experts (demanding consumers) and offer product service while retailers, who represent just over half of the market, sell products in the low to medium price ranges, mainly targeting consumer segments.

The online channel, which in addition to pure online resellers is also used by dealers and retailers and directly by manufacturing companies, is becoming increasingly significant and now accounts for 10 to 15 percent of the total market.

Construction and stone industry products are sold directly to end-users such as sawing and drilling contractors and quarry operators, to rental companies that lease the equipment to end-users and to dealers who sell to professional construction end-users.



CHAPTER 03 / 08

Strategy





In 2019, Husqvarna Group presented an updated strategy aimed at reaching industry-leading growth and profitability. The main elements of the strategy are a focus on the customer experience, services and solutions, robotics and battery technology as well as continually developing the core offering.

Shaping great experiences – the next phase

Shaping great experiences is Husqvarna Group's vision – to make a real difference for its customers through leadership in sustainable user-centered solutions. This vision is an important driver behind the next phase of the Group's strategy for profitable growth.

Ready for profitable growth

Husqvarna Group is well positioned in attractive markets with steady underlying growth. This is supplemented by a strong presence in a number of high-growth market segments, such as robotic lawn mowers, battery-powered products, smart connected solutions for garden care and growing segments in the light construction industry. Since 2013, Husqvarna Group's strategy has focused on measures to improve profitability and drive growth. This has been combined with restructuring activities and major investments to strengthen the Group's market and technical leadership. The key components have been:

FOCUSING ON STRONG BRANDS

- In 2019, the main brands Husqvarna and Gardena accounted for approximately 85 percent of sales compared with approximately 65 percent in 2013.

FOCUSING ON CORE PRODUCTS & HIGH-GROWTH PRODUCT SEGMENTS

- Core products and product segments, also including robotic and battery-powered products along with services and spare parts, accounted for 82 percent of sales in 2019 compared with 67 percent in 2013.

FINANCING STRATEGIC GROWTH INITIATIVES THROUGH STRONG EFFICIENCY PROGRAMS

- Since 2016, strategic growth initiatives totaling around SEK 1.5bn have been fully financed through efficiency programs in Husqvarna Group's operations.

SIGNIFICANT STRENGTHENING OF CAPABILITIES IN NEW AREAS

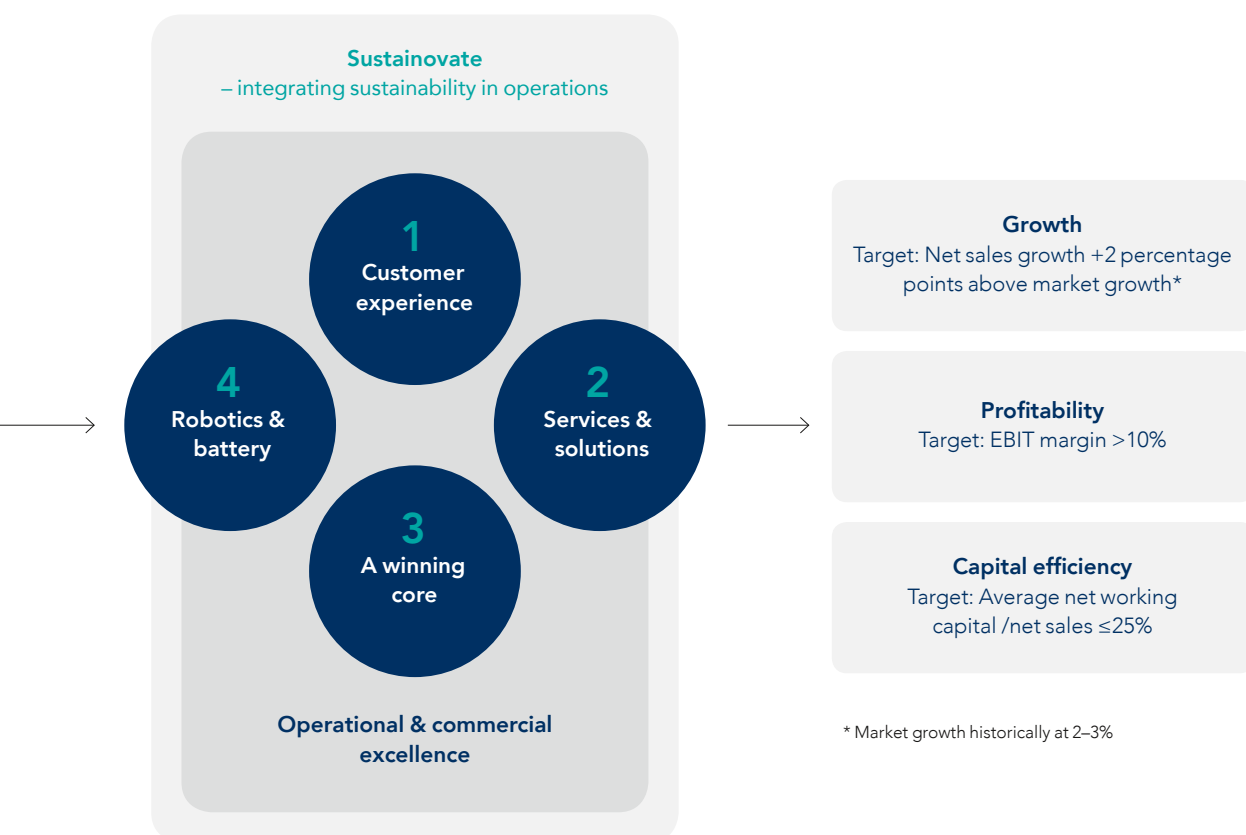
- To achieve its ambition of technology leadership in the industry, Husqvarna Group has, over the past years, recruited about 300 new team members in areas such as software development, electronics and the Internet of Things (IoT).

The work carried out has provided Husqvarna Group with a stable foundation and the right conditions for the next phase in its efforts to generate industry-leading growth and profitability.

Megatrends

- Speed of technology
- Climate change and resource scarcity
- Urbanization and new customer groups
- Shifting consumer values and purchasing behaviors





Husqvarna Group's strategy – the next phase

Husqvarna Group wants to make a real difference for people who shape green spaces and create great outdoor environments and help them achieve excellent results. Creating an outstanding customer experience is a prerequisite for reaching the target of industry-leading growth and profitability. The Group is striving to enhance

growth and profitability by leveraging the strengths in the business and by combining industry-changing innovation and new services with the Group's market-leading position in high-growth segments. The strategy has four main components and is supported by a strong focus on operational and commercial excellence.

1. Customer experience

Husqvarna Group's vision – shaping great experiences – clearly signals the Group's focus on creating an outstanding customer experience. Customer experience is a crucial factor in creating a premium product experience and in driving customer loyalty. Customer experience encompasses more than just the products. It is about creating value throughout the entire product lifecycle – from before a purchase decision, through the use phase and to the future purchase of a new product.

Each division has identified its key customer groups. By creating a close relationship with these groups, Husqvarna Group can continuously improve its insight into what is important to users in everyday situations and develop solutions that match these needs. This creates a distinct customer-driven development of products and services and opportunities for revenue creation through new business models.

2. Services & solutions

Services and solutions provide new opportunities for Husqvarna Group to drive growth and profitability. It is also a logical consequence of the strategy to create an outstanding customer experience throughout a products lifecycle. By expanding its offering with business models in services and solutions, Husqvarna Group aims to move closer to end-users and their experiences, and simultaneously grow the aftermarket business.

Part of this involves expanding in an already-established base of aftermarket business including spare parts and accessories. Another area is establishing completely new business models. Here, Husqvarna Group can benefit from its large and growing base of connected products and users. Access to data on the use and status of products can help to create new smart service offerings. One example is Husqvarna Fleet Services™, which offers professional customers an overview of where machines are located, how much they have been used, when they need servicing and tracking CO₂ emissions. By using this information, customers can optimize their operations for enhanced growth and profitability and extend the product life cycle.

3. A winning core

Husqvarna Group is powered by strong brands, which is a success factor for the Group. The strong brand equity and focus on high-performance products under the Husqvarna and Gardena brands enable a premium

offering, higher margins and increased investment in new product development. One key component of Husqvarna Group's strategy looking ahead is to continue to develop and strengthen market positions in the core offering, for instance, in chainsaws, watering solutions and power cutters, through both product innovation and marketing. This creates opportunities to enhance growth and profitability. A strong and profitable product portfolio in the core offering is also a prerequisite for financing investments in new areas.

4. Robotics & battery

Robotic and battery-powered products are important components in Husqvarna Group's growth strategy. The market growth for these products and smart garden services is significantly higher than for the market as a whole and the future potential is substantial.

Husqvarna Group is the undisputed global market leader in the fast-growing consumer segment for robotic lawn mowers. The Group will expand based on its leading position through a high pace of innovation and continued geographical expansion. Another central part of the strategy is to broaden the offering and develop the market segment for professional users, a segment with large potential. Products and software systems developed for professional use and a dedicated go-to-market organization are important elements in this work. One example of innovation leadership that creates opportunities in the professional segment is EPOS™, Husqvarna's new technology for robotic lawn mowers with virtual, and therefore flexible, boundaries.

Husqvarna Group is also expanding its leading position in battery-powered products for the Group's application areas, both for consumers and professional customers. Husqvarna Group has a clear ecosystem approach with its smart gardening systems and battery-powered products. Most of the Group's products are driven by the same battery family and controlled in the same applications. This creates benefits and greater flexibility for Husqvarna Group and for its customers. To ensure a continued high pace of innovation, Husqvarna Group has a function dedicated to battery technology as well as strategic partnerships with selected key players in the field.

Operational & commercial excellence

Husqvarna Group's ambition is to achieve higher growth and profitability than the industry as a whole.



EPOS™ – Virtual boundaries. Endless opportunities. Husqvarna EPOS™ (Exact Positioning Operating System) is a pioneering technology for a new series of professional Automower® robotic mowers. The satellite-based technology means you can use the mowers within virtual boundaries. This simple and flexible solution is perfect for commercial areas, golf courses, city parks and other spaces where needs and conditions change.

One prerequisite for this is a continued focus on efficiency throughout the value chain – from purchasing and production to distribution, marketing and customer care. This is important as a large share of the Group's operations is in the global and seasonal market for forest and garden products, which places high demands on a flexible supply chain.

Operational efficiency and continuous cost reductions are also tools to finance growth investments in new areas. Husqvarna Group is working methodically and purposefully with this to succeed.

The Group operates with strong, focused and empowered divisions with the resources needed to drive business toward their desired goals. Each division targets its unique group of end-users and builds on the factors needed to succeed in their market segment. As a result, Group functions are small and tasked with supporting the divisions to ensure synergies, for example, in e-commerce, business architecture and tools and methods to strengthen efficiency and productivity.

SUSTAINOVATE – SUSTAINABILITY A PREREQUISITE FOR MARKET LEADERSHIP

Being credible as market leader, requires a forward thinking, outside-in approach. Addressing the impact the Group has on people and the environment will strongly influence the position as market leader. Being part of the shift to a low-carbon economy is also a responsibility to future generations that the Group takes seriously.

Sustainovate – the Group's approach to integrating sustainability into the business – therefore plays a vital role in the strategy. The Group is now launching the second phase of Sustainovate to 2025. While Sustainovate to 2020 focused on integrating sustainability deeper into the business across five areas, Sustainovate 2025 addresses three opportunities for change: transformation to low-carbon economy, pioneering ways to deliver great value to customers through circular economy solutions, and inspiring and engaging customers and employees in these efforts. Read more about Sustainovate on page 32.

Husqvarna Group's targets

The financial goal of Husqvarna Group's strategy is to deliver industry-leading growth and profitability. In terms of sustainability, the most important target is to reduce environmental impacts by lowering CO₂ emissions.

Financial targets

Husqvarna Group presented updated financial targets in 2019. These targets apply from 2020 and cover sales growth, operating margin and capital efficiency.

	DEFINITIONS	TARGET	ACHIEVEMENT 2019
1	Sales growth The target is to achieve annual net sales growth of 2 percentage points above market growth. Historically, the market has grown by 2-3 percent, resulting in a target of 4-5 percent. The target is measured on a currency adjusted basis and excludes any impacts from acquisitions.	Market +2 ppts	1.3%* Compared with the previous target of net sales growth of 3-5 percent
2	Operating margin The target is to achieve an operating margin exceeding 10 percent.	>10%	9.3% Compared with the previous target of an operating margin of 10 percent or above.
3	Capital efficiency The Group's operating working capital, seasonally adjusted by taking the average of the closing balances for the previous five quarters, should be a maximum of 25 percent in relation to annual net sales.	≤25%	27.3% The previous target was the same as the target valid from 2020.
	Credit rating The Group aims to have a long-term credit rating corresponding to at least BBB, which is the current rating from Standard & Poor's.	BBB	BBB
	Dividend According to the dividend policy, the annual cash dividend paid to shareholders should normally exceed 40 percent of net income for the previous year.	≥40%	51%

*Excluding exited Consumer Brands business and currency effects.

Sustainovate targets

Husqvarna Group's approach to sustainability is built on five challenges where the Group can make the greatest difference and create economic, social and environmental value for key stakeholders. Sustainovate includes Group-wide targets to drive company performance to 2020 compared to 2015, unless otherwise indicated. Below is the Group's progress.

DEFINITIONS	2020 TARGETS		2019 PROGRESS AGAINST TARGET	
 Carbon Challenge Decouple business growth from CO ₂ emissions.	10% CO ₂ emission intensity reduction across the value chain.	33% absolute CO ₂ emission reduction from product use by 2035.	45% CO ₂ emission intensity reduction across the value chain.	24% absolute CO ₂ emission reduction from product use.
 Team Challenge Be the best place to work.	+9 A Team Survey Net Promoter Score (NPS) equal to or higher than the peer group (+9).		+8 Net Promoter Score In 2019 the peer group's NPS was +9.	
 Supplier Challenge Inspire and build a sustainable supplier base.	70% of the purchasing spend from strategic suppliers audited and approved on their sustainability performance.		51% of the purchasing spend derived from audited and approved suppliers.	
 Safety Challenge Lead the industry in safety across the value chain.	35% reduction in new product incidents (compared with 2016).	40% reduction in injury rate in operations.	77% reduction in new product incidents.	31% reduction in injury rate in operations.
 Community Challenge Build a platform for teams to engage in local communities.	Establish a Group-wide framework to align objectives and measure positive impact of emergency response and community work.			

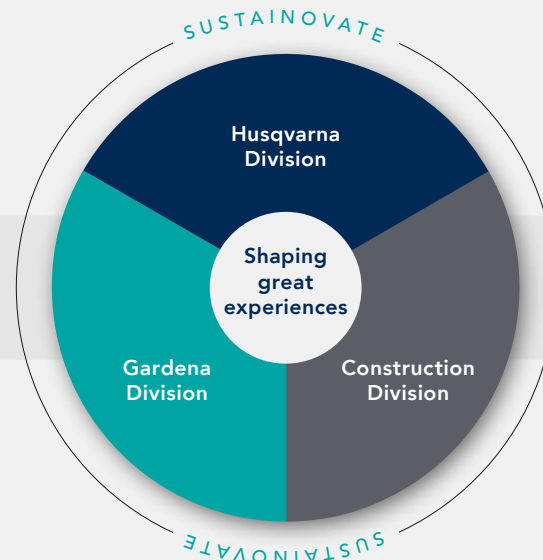
Creating sustainable value

ASSETS

- Leading brands Husqvarna and Gardena
- Around 13,000 employees
- 25,000 dealers and retailers
- R&D of SEK 1.7bn
- Equity of SEK 17.3bn
- Presence in 140 countries
- 30 factories
- 170 strategic suppliers
- More than 2,200 patents

VISION, PURPOSE,
DNA & CULTURE

SERVICES &
NEW BUSINESS
MODELS



Accelerating growth by leveraging the combined strengths of the Group.

Assets: The building blocks for a sustainable business

Strong brands, 13,000 employees and expertise in user-focused product development and patents are the Group's most important assets. Long-term shareholders also provide the Group with the flexibility to focus on sustainable profitable growth and to invest in innovation and acquisitions.

As an integrated part of achieving operational efficiency, the Group optimizes the use of raw materials and components in production, which primarily comprise plastics, steel, aluminum and energy. This allows effective management of fluctuations in the price of and access to raw materials and components.

Strong relationships play an important role in the Group's business model. Approximately 170 of some 2,000 suppliers are considered strategic to the business. More than 25,000 dealers and retailers represent Husqvarna and Gardena brands across 140 countries, delivering added value to professionals and consumers alike.

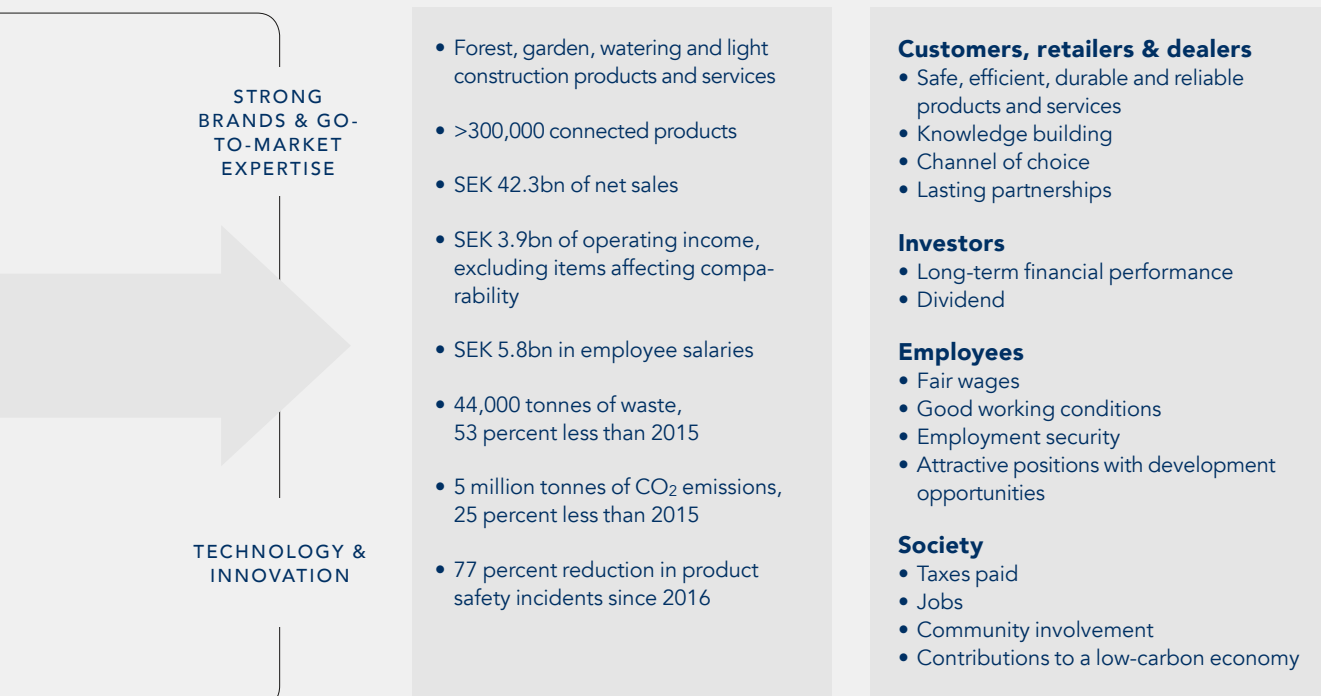
The Group's strengths

Profitable growth, while reducing the Group's impacts on the environment is the Group's approach to generating stakeholder value. It is founded on innovation and sustainability, the Sustainovate program, leveraging the Group's strong brands, global distribution and efficiencies of scale to create differentiated products and solutions tailored to end-customer segments.

This is achieved by investing in strategic growth areas, such as robotic lawn mowers, battery-powered products and smart garden solutions as well as continuing to develop a winning core offering and piloting new business models. The Group also maintains competitiveness through flexible, cost-efficient product manufacturing that can be easily adjusted to fluctuating seasonal demand while always meeting customer expectations on quality and safety. Husqvarna Group utilizes the joint strengths in the Group to enable positive development:

- Vision, purpose, DNA and culture: These contribute to engage the teams. A foundation of a shared vision and core purpose, shared behaviors and important policies such as the Code of Conduct underscore how every employee can contribute to building a results-oriented and long-term successful company.

- Leading brands and go-to-market expertise: The divisions can benefit from the Group's extensive experience in creating leading brands and successfully implementing market strategies.
- Technology and innovation: Innovation and technology development are part of Husqvarna Group's DNA. The Group's divisions can take advantage of Group-wide resources, including strategic partnerships, in key areas such as robotics and battery technology, software development and artificial intelligence (AI).
- Services and new business models: A key element in Husqvarna Group's strategy is an enhanced focus on services and solutions. The Group's growing share of connected products and users is creating opportunities for new business models. The divisions can leverage the strength in the pool of knowledge and experience created within the Group. One such example is Husqvarna Fleet Services™, a system and service offering that is shared across the Husqvarna and Construction divisions.
- Sustainovate: Sustainability provides an outside-in perspective and the Sustainovate program is the way the Group integrates sustainability across its business and engages the organization. It allows the Group to better address market dynamics and societal challenges and understand key stakeholders better.



Outcome: Sustainable profitable growth

Through innovation, energy-efficient operations and engaged and dedicated teams, the Group is growing its business while reducing, in relative terms, CO₂ emissions and waste across the value chain. Products in a wide range of categories are tailored to customers' demands for efficiency, quality, durability and safety across markets, resulting in great customer experiences.

Value created for key stakeholder groups

The focus on profitable growth provides opportunities for efficient and innovative products and services that generate economic, environmental and societal value. Key stakeholder groups such as customers, investors, employees and society stand to benefit from this approach. It also generates income that is reinvested in the company through research and development of new innovative products and services as well as other market leadership activities.

The Group's business model is built on a strategy that aims to achieve industry-leading growth and profitability by focusing on customer experience, services and solutions, battery and robotic technology and a winning core offering. Husqvarna Group believes focused sustainability initiatives are crucial for long-term market leadership and value creation.

CHAPTER 04 / 08

Husqvarna Group's divisions



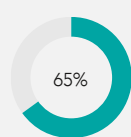


Husqvarna Group operates on the principle of having strong, focused and empowered divisions with all of the functions needed to achieve their goals.

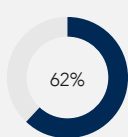
Three strong, **focused** and **empowered** divisions

Husqvarna

Global leader in forest and garden products



Share of Group net sales

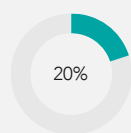


Share of Group operating income*

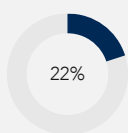


Gardena

The garden care segment leader



Share of Group net sales

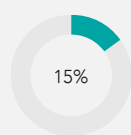


Share of Group operating income*

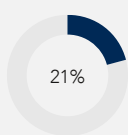


Construction

The preferred construction industry choice



Share of Group net sales



Share of Group operating income*



* Excluding items affecting comparability. The divisions' share of Group operating income adds up to more than 100 percent due to Group Common Costs.

END-CUSTOMERS	MARKET POSITIONS/PRODUCTS	DISTRIBUTION CHANNELS	MAIN COMPETITORS
• Pro-grade experts • Tree professionals • Green space professionals	• Global leader in robotic lawn mowers for both consumers and professionals • Global no. 2 in handheld products such as chainsaws, brush cutters, trimmers and leaf blowers • Leading positions within wheeled products such as front riders and zero-turn mowers • Professional fleet management services	• Dealers for professionals and high-end consumers • Retail channels • Online	• STIHL Group • John Deere • Honda • Toro • Stanley Black & Decker • MTD • Yamabiko Corporation
END-CUSTOMERS	MARKET POSITIONS/PRODUCTS	DISTRIBUTION CHANNELS	MAIN COMPETITORS
• The passionate gardener	• No. 1 in Europe for consumer watering management: garden hoses, reels and sprayers; sprinklers, sprinkler systems and water pumps • Leader in robotic lawn mowers sold through retail, trimmers, hedge cutters and shrub shears • Garden tools such as secateurs, loppers, axes, digging tools and winter tools • Leader in smart garden systems – Gardena Smart System	• Retail-centric, multi-channel	• Bosch Group • Fiskars • Hozelock • Kärcher • Stiga • TTI • Positec
END-CUSTOMERS	MARKET POSITIONS/PRODUCTS	DISTRIBUTION CHANNELS	MAIN COMPETITORS
Contractors and professionals in: • Concrete sawing and drilling • Concrete surfaces and floors • Light demolition • Stone	• Leading position in power cutters • Light compaction and concrete placement equipment • Floor grinding machines • Dust and slurry solutions • Diamond tools for construction and stone industries • Floor and masonry saws • Demolition robots	• Construction dealers and retailers • Rental companies • Direct sales • Stone processing industry	• Hilti • STIHL • Tyrolit • Ehwa • Shinhan • Skystone

Global leader in forest and garden products

Husqvarna Division offers products for forestry, tree care, landscaping and other commercial lawn and garden services as well as for consumer segments including home and landowners. Heritage products include professional chainsaws and robotic lawn mowers.

Brands

The division's core brand is Husqvarna, which accounts for the majority of sales. The Husqvarna brand is distinguished by innovative products and solutions that promote productivity, safety and sustainability. Tree care and forestry are the DNA of the Husqvarna brand and robotic lawn mowers another core pillar of its market and technological leadership. The Husqvarna brand is primarily sold through more than 25,000 independent dealers worldwide, primarily in Europe and North America, but also in the faster growing emerging markets. Other brands include Zenoah (mainly Japan), Klippo (Nordics) and RedMax (North America).

From 2019, the division also includes the North American operations of the former Consumer Brands Division that was dissolved in 2018.

Products and solutions

The Husqvarna Division strives to be the preferred partner among its target groups, including the pro-grade experts, green space professionals and tree professionals segments, with innovative products and first-class customer service and technical support.

Husqvarna is the undisputed global leader in robotic lawn mowers. High-performance battery-powered products are also an important part of the division's product offering along with digital services such as the Husqvarna Fleet Service™ system and Automower® Connect. In addition, the division has strong market positions in handheld products, including chainsaws, trimmers, blowers as well as lawn mowing equipment.

Market and customer segments

In 2019, the division adjusted its organization around three fundamentally different target groups with the formation of three customer solution units – pro-grade experts, tree professionals and green space professionals – and three market clusters – Europe & Pacific, emerging markets and North America. This refined setup will provide greater customer centricity and further enhance the division's relevant offering of solutions and services as well as its go-to-market execution.

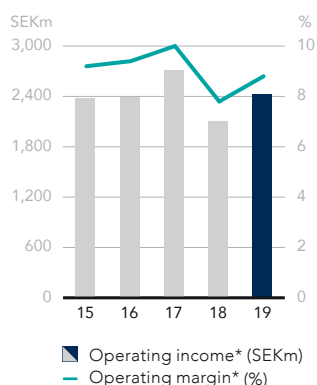
Sustainability

The Husqvarna Division works to enhance energy efficiency and the shift to low-carbon alternatives through research and development, service, innovation and digitalization. This has generated growth of battery-powered products, which facilitate use of renewable energy. The division cooperates with cities and municipalities on a variety of projects to enhance parks and accessibility to green spaces. For example, the Husqvarna Living City conference has become an important annual event to promote green landscaping and develop more sustainable solutions for professional green space maintenance. The division also has ambitious objectives to shift to low-carbon energy in its manufacturing operations, for example, by sourcing 90 percent of its electricity from renewable sources by 2020.

Growth opportunities

Significant market opportunities remain in new segments for green space professionals, such as professional robotic applications, as well as in regional markets such as emerging markets and North America. Expanding Husqvarna's leading position in residential and professional robotic lawn mowers and fully capitalizing on this growing market is a cornerstone for the division's growth and success. Other product categories with good growth potential include battery-powered products such as trimmers, blowers and chainsaws for both professionals and consumers.

Operating income and margin



Net sales by region





INTERVIEW WITH

Sascha Menges – President Husqvarna Division**How did Husqvarna Division improve results in 2019?**

Growth in key areas such as robotic lawn mowers and battery powered solutions, parts & accessories as well as exiting unprofitable product categories and closing one main production facility contributed to our improvements during the year. We still have work ahead of us, but it is satisfying that achievements and initiatives like these helped us to improve and put us back on our profitable growth trajectory.

What key trends shaped the year?

Consumer demand for battery-powered and autonomous products continued to grow, which is reflected in our pro-battery and robotics leadership. We doubled our North American robotic lawn mower business and we continue to lead the market, which still has huge growth potential. General market demand however started slowly in Europe and we experienced softer demand in North America in the second half of the year.

What were the important 2019 product launches?

We continued to prove our innovation leadership. With our new chainsaw, Husqvarna 550 XP® MKII, we launched a new cutting system that offers superior cutting capacity and was greatly received around the world. Our new Husqvarna Automower® 435X, an AI-enabled robotic mower with all wheel drive (AWD), also redefined the category and successfully reinforced our robotics leadership position.

Tell us about some of the division's exciting innovations.

In 2019, we unveiled EPOS™, a breakthrough satellite-based technology that allows the more flexible and robust installation of robotic mowers with virtual boundaries for professional green space management.

We also showcased HUGSI – the Husqvarna Urban Green Space Index – a new AI-powered solution to enable municipalities to better monitor urban green space development.

What progress was made with Sustainovate?

Sustainability is increasingly being integrated in our business model and operations.

Our Sustainovate targets in particular lift our product development ambitions to help our customers reduce their impacts. Examples include a new CO₂ calculator for our digital Husqvarna Fleet Service™ system that helps green space professionals track their carbon footprint development.

What are the key challenges and opportunities going forward?

We are well positioned to continue our profitable growth trajectory, with strong brands, market positions and innovation. Our refined strategy and organizational setup will ensure we continue to deliver a relevant offering of customer-centric solutions and services that deliver superior customer experience.

Priorities for growth

- Customer centric solutions and services
- Innovation in core segments
- Robotics leadership
- Pro battery leadership
- Accessibility and go-to-market

The garden care segment leader

Gardena is the number one watering brand and a leading brand of high-quality garden tools and solutions in Europe. All in all, it is represented in more than 80 countries around the world.

Brands

Gardena enjoys strong brand awareness in the European garden care segments and the brand is associated with high-quality and market-leading innovation. Gardena is the preferred brand for millions of home and garden owners thanks to its complete product range that includes everything a passionate gardener requires – from watering and lawn care systems to gardening tools.

From 2019, the division also includes the European operations of the former Consumer Brands Division that was dissolved in 2018 – Flymo, an iconic brand for lawn care and electric products in the UK, Universal, which offers accessories, and McCulloch, which offers robotic lawn mowers and handheld forestry and garden equipment.

Products

Gardena offers the broadest range of gardening products in its markets and in several European countries. It leads the market in watering, hand tools and electric gardening tools. Much of its success has come from systems such as the Original Gardena System in watering products (garden hoses, connectors, nozzles, sprinklers) and the Gardena Combisystem for hand tools and high-quality cutting tools such as secateurs and loppers.

Recent additions include Gardena City Gardening for smaller gardens and balconies and the Gardena Smart System, which includes leading solutions for garden automation – to extend the smart home outdoors.

Market and consumer segments

Gardena products and services are designed with the passionate gardener in mind. These users take pride in creating green spaces and truly enjoy the different activities gardening involves. They also like to have some of the work automated so they can focus on the more fun and creative parts of gardening. For this reason, they demand user-friendly, high-quality and reliable products as well as digital solutions to provide and share inspiration.

The division offers comprehensive digital customer support that includes automated watering and mowing as well as garden planning applications. Developing high-quality services and leveraging them to further strengthen the consumer brand experience is important to the division's future success.

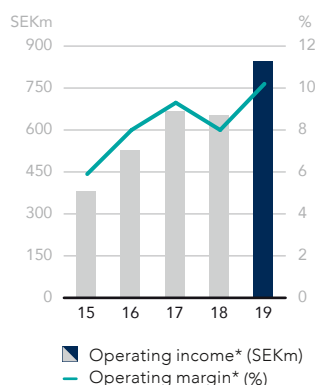
Sustainability

Gardena's consumers have strong connections to nature and want to enhance their environments. The division actively promotes the most sustainable options and help consumers see opportunities to reduce their CO₂ impact and use less water. The same commitment to Sustainovate is reflected across the value chain – from its aim to source 100 percent renewable energy in its global operations to its product offering. Gardena currently sources all of its electricity for the manufacturing sites in Europe from renewable sources. The Gardena product range offers only electric and battery-powered products, such as robotic mowers, lawn mowers, hedge- and grass trimmers. Since 2018 Gardena engages in a continued partnership with UNICEF to support water, sanitation and hygiene development projects worldwide.

Growth opportunities

Gardena is driving a growth strategy. There are significant opportunities to expand within and beyond Gardena's core markets in Central Europe, for example, in Southern Europe, the UK and Asia. Gardena is tapping into new distribution channels such as e-commerce and maintains a high proportion of investment in innovation to develop new products in adjacent product categories.

Operating income and margin



Net sales by region





INTERVIEW WITH

Pär Åström – President Gardena Division**Tell us about Gardena's profitable growth in 2019.**

Following our excellent financial performance in 2018, it's fantastic to report yet another record year for Gardena as we continue to execute our profitable growth strategy. Growth was particularly strong in our core Gardena branded business, which offset the exits we have made in unprofitable segments under the McCulloch brand. Importantly, we also managed to restructure our overall Consumer Brands business.

What were the key success factors during the year?

Another largely warm and dry summer in Europe maintained high demand for our efficient and smart watering products, and we continued to grow in other segments and in focus markets outside the DACH (Germany, Austria and Switzerland) region. Our newly installed supply chain capacity also enabled us to better meet the high demand for Gardena products. There is, however, still more opportunity to improve our supply chain capacity and we are further investing to overcome other bottlenecks in our production.

What were the most important market trends?

Digitalization and home automation are key trends that enable the smart garden as an extension of the smart home, and digital solutions and tools also help the passionate gardener engage with their hobby online. City gardening and sustainability are also important trends, particularly in terms of efficient watering systems.

What progress did the division make with Sustainovate?

Efficient new products for 2019 included the ecoPulse™ water spray gun that consumes 40 percent less water. We also successfully continued our Every Drop Counts water-awareness program in partnership with UNICEF. During the year, we launched a cause-related-marketing campaign with a co-branded product. The overall goal of the partnership is to provide access to clean drinking water to more than 160,000 people by 2021.

Did Gardena continue its market expansion?

Our focus markets for expansion include Northern, Southern and Eastern Europe as well as Asia. A particularly exciting new venture for Gardena in 2019 was starting its

own distribution in Japan, which is a nation of truly passionate gardeners with an advanced city gardening culture and mature digital market. But importantly, I would say that we achieved strong growth across all our focus markets during the year.

How important is Gardena's focus on the passionate gardener?

We see ourselves as a gardening business rather than a garden tools company and this mindset is essential in how we engage with the passionate gardener in our joint passion for gardening. I believe our passionate gardener mindset remains a huge opportunity for us – not only how we provide gardening inspiration and ideas, but even being able to tailor our products and services to the specific needs of our individual consumers.

Priorities for growth

- Geographic and category expansion
- Multichannel experience
- Innovation leadership
- Passionate gardener engagement

The preferred construction industry choice

The Construction Division is a global leader in machinery and diamond tools for the light construction and stone industries with a strong focus on innovation and customer support leadership.

Brands

Husqvarna is the division's primary brand, with the broadest range of light construction equipment, diamond tools and services for concrete sawing and drilling, concrete surfaces and floors and light remote demolition. The Husqvarna brand is complemented by three industry leading specialist brands:

- HTC is the global floor finishing innovator and expert that offers a complete range of floor grinding solutions.
- Pullman Ermator is the leading specialist in dust and slurry management solutions for construction applications.
- Diamant Boart is a world leader in diamond tools for the stone industry.

Products and solutions

The Construction Division offers solutions used exclusively by construction professionals who demand high-level performance, reliability and superior support. The division develops, manufactures and sells the most efficient and powerful solutions on the market for sawing, drilling and demolishing concrete, steel and other hard materials, as well as compaction, concrete consolidation and floor finishing. Significant ongoing investments in innovation are being made to deliver maximum customer value through the widest, most innovative and powerful solution offering on the market.

Market and customer segments

The Construction Division has a strong market presence in most of its targeted product categories with leading positions in power cutters, floor grinding machines, dust and slurry management solutions, floor, wall and wire saws and related diamond tools as well as multi-wire diamond tools for the natural stone industry.

The division's global network of sales companies, distributors, dealers, service centers and manufacturing plants is focused on customer need in the rapidly changing construction industry. The Construction Division has an excellent sales and service support network and products and solutions are distributed globally through innovative sales processes and tools.

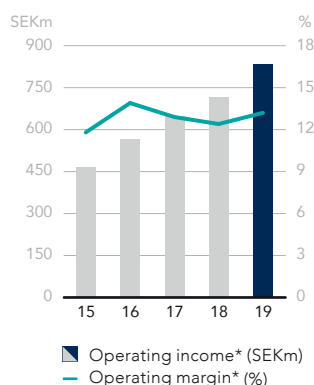
Sustainability

The Construction Division is working actively to continuously reduce its environmental impact and increase the safe use of its products. The greatest CO₂ and safety impacts occur during product use. Reducing CO₂ impact involves product electrification and improved energy efficiency. Solutions that promote worker safety and enable better management of dust and slurry also deliver considerable benefits at construction sites.

Growth opportunities

Following consecutive growth since 2010, the Construction Division is continuing to grow organically with new customers, products, services and markets as well as through targeted complementary acquisitions. In recent years, the division has created a second core business area through the acquisitions of the Light Compaction and Concrete Equipment business from Atlas Copco (February 2018), HTC (May 2017), Pullman Ermator (January 2017) and DTS (May 2016). This was further expanded during the year through the acquisition of Wacker Neuson's concrete power trowel business (October 2019).

Operating income and margin



Net sales by region





INTERVIEW WITH

Henric Andersson – President Construction Division**Did the division continue to grow during the year?**

I am pleased to report that 2019 was our ninth consecutive year of growth. In particular, our construction business achieved good growth in Europe, Asia Pacific and in emerging markets, but with slower growth in North America. Trade tariffs affected our business during the year, although we managed to offset these by increasing pricing and optimizing our supply chain.

What key products were launched in 2019?

We launched our first fully battery powered product – an energy efficient, low-noise power cutter that uses the proven Husqvarna battery system for maximum customer flexibility. Our recent acquisitions are also enabling us to innovate integrated solutions, such as building on our competence from Pullman Ermator to launch a new power cutter with integrated dust collection.

How are your recent acquisitions being integrated into the division?

Our integration work is generally progressing quicker than planned and is enabling us to create something new – not just in terms of consolidating operations to develop economies of scale, but the creation of our new concrete surfaces and floors

growth platform. Our acquisition of Wacker Neuson's power trowel business during the year filled an important gap in our product range for ride-on concrete power trowels. Importantly, our recent acquisitions have brought in top talent, contributing to our excellent team with remarkable capabilities.

Tell us about how services are enhancing the division's offering.

Crucially, I think our services help us gain better customer insight and greater customer loyalty, ultimately creating additional customer value and new profit streams. During the year, we fully launched our Fleet Services™ system, which promotes more efficient fleet use by installing sensors on equipment to remotely monitor their utilization, plan maintenance and much more. We also launched a downloadable diamond tool selector app to help our customers rapidly find the best process and diamond tools for any specific job.

What progress did the division make with Sustainovate?

Of course, the K 535i power cutter, our first fully battery-powered product, is significant. We plan to accelerate our efforts to launch new battery products that can complement or replace corded or petrol-powered equipment. Another highlight is the installation of

a 2 MW wind turbine at our Belgian plant, which will contribute to our operational energy needs with clean electricity as of 2020.

What are the key challenges and opportunities going forward?

The fact that we continued to grow in 2019 despite tariffs and other headwinds is testament to our comprehensive market offering, engaged team members and the fact that customers are increasingly using diamond tools to grind and polish concrete floors as a floor finish. Emerging markets present growth opportunities for our business and we intend to continue to position ourselves as the premium option as they mature. In addition, we have a proven process and track record to identify and successfully integrate acquisitions.

Priorities for growth

- Enhance customer value through best-in-class services and after market
- Customer experience excellence
- No.1 in battery-powered solutions
- Accelerate growth in emerging markets
- Growth through acquisitions

CHAPTER 05 / 08

Sustainable solutions fit for the **future**



The need for sustainable solutions has never been greater or more pressing. Building on the creativity of its teams, the Group is pioneering pathways for step-change efficiency and smarter resource use. By placing Sustainovate at the heart of the company, the Group is shaping a company that is built to last.

Integrating sustainability across the Group

Husqvarna Group embraces innovation that brings people and nature closer together. Sustainovate 2020, the Group's approach to integrating sustainability deeper into its business, is built on five key challenges. The purpose is to reduce impacts and enhance the Group's ability to positively affect people's lives and the environment.

Sustainovate includes Group-wide targets to drive sustainability performance over a five-year timeframe. This goal-based approach has focused attention on long-term value creation and is critical for market leadership. As the Group shifts to battery-driven solutions and embraces new business models the Group is equipping for business transformation. It has also acted to improve its CO₂ impacts in the supply chain and is enlisting the systems thinking of the CDP Supply Chain

program to better capture insights on the scale of suppliers' CO₂ emissions. A better understanding of these impacts remains an important challenge to tackle.

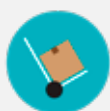
With four years of the five-year window completed, the benefits of this approach are showing and the Group is positioned to achieve most of its targets.

Sustainovate targets compare performance to 2015 unless otherwise stated.

	AMBITION	TARGET	PROGRESS	HIGHLIGHTS	NEXT STEPS
Carbon challenge <i>Decouple business growth from CO₂ emissions</i> 	Husqvarna Group seeks to deploy innovation, energy-efficiency and new products to grow the business while reducing emissions across the value chain – from product design and development to suppliers, manufacturing, logistics and smarter product use.	10% CO ₂ intensity reduction across the value chain. <i>Our science-based target</i> 33% Absolute CO ₂ reduction from product use by 2035.	45% ✔ on track	- In motorized products, 28 percent of the business is represented by battery-powered, robotic and electrical products—up from 11 percent in 2015 58 percent of electricity used in operations derives from renewable sources - More than half of the R&D spend of SEK 1,720 m was directed to battery and robotic technologies - Exited low-margin petrol-powered product segments in North America.	- Increase sales of low-carbon products - Explore possibilities to source or install renewable energy - Engage suppliers to measure and reduce CO₂ emissions - Launch revamped Science-based target to align with 1.5°C.
	AMBITION	TARGET	PROGRESS*	HIGHLIGHTS	NEXT STEPS
Team challenge <i>Be the best place to work</i> 	Efforts to build an attractive, behavior-led workplace should never stop. By providing a platform for employees to make a difference and offering opportunities for people of all backgrounds to maximize their talents, the Group aims to be the employer of choice.	±9 Net Promoter Score (NPS) is equal to or exceeds the peer group.	+8 ● additional effort needed	91 percent (approx. 12,000 employees) responded to the 2019 Team Survey - Since 2015 some 142 managers have taken part in leadership training, 56 of them in 2019 - Defined our Group Employee Value Proposition (EVP).	- EVP roll-out Group-wide - Diversity and Inclusion strategy and action plan - Develop and execute Group Leadership Behavior and Capability model.

Supplier challenge

Inspire and build a sustainable supplier base



AMBITION

By evaluating strategic suppliers' environmental, human rights and safety performance and ethical standards, the Group aims to motivate suppliers to improve and to prioritize those with high sustainability performance.

TARGET

70%

Of purchasing spend from strategic suppliers audited and approved based on their sustainability performance.

PROGRESS

51%

✓ on track

HIGHLIGHTS

- Since 2015, 144 supplier sustainability audits conducted in Asia, Europe and Americas
- 131 strategic suppliers audited and approved
- No zero-tolerance issues were uncovered in supplier audits
- Updated the Supplier Code of Business Ethics.

NEXT STEPS

- Complete current audit program and define action plan for responsible sourcing to 2025
- Define action plan to improve transparency on minerals of concern
- Train commodity managers on Supplier Code of Business Ethics.

Safety challenge

Lead the industry in safety across the value chain



AMBITION

The Group's strong focus on safety and ergonomics in products and on occupational, health and safety (OHS) will improve safety across the value chain.

TARGET

40%

Reduction in the Total Recordable Incident Rate (TRIR) in operations.

PROGRESS

31%

● additional effort needed

35%

Less recordable incidents related to the new products compared to 2016.

77%

✓ on track

HIGHLIGHTS

- Workplace safety**
- Implemented an ISO 45001-based OHS management system
 - Launched new OHS policy
 - 135 OHS audits performed.
- Product safety**
- A decrease in volume of products historically involved in incidents
 - Sales of protective equipment worldwide represented 1.3 percent of global sales compared to 0.2 percent in 2015.

NEXT STEPS

- Workplace safety**
- Implement Group-wide OHS incident management system
 - Increase preventative action reporting and risk observations
 - Involve more people in internal audits to promote best practice.
- Product safety**
- Launch products with new safety features
 - Accelerate innovation initiatives for improved product safety.

Community challenge

Build a platform for teams to engage in local communities



AMBITION

By connecting people with nature, the Group aims to protect biodiversity, promote healthier lifestyles and create more resilient communities.

HIGHLIGHTS

- Matched Ulm community donations, providing 200,000 Euros for helping 100,000 people gain access to clean water
- In 2019, held the Living City global conference in Gothenburg, Sweden and nine local events around the world to raise awareness on the role of parks
- Since 2015, convened 30 regional Husqvarna Loves parks meetings and four international conferences
- Durban and Rio de Janeiro listed as Husqvarna Group's newly launched HUGSI 2019 Index of the world's greenest cities.

NEXT STEPS

- Action plan for Group-wide emergency relief program.

Strategic milestones

As its business expands, the Group is challenging itself to drive down CO₂ emissions while expanding its brand and market footprint. As well, the Group's support for the UN's Sustainable Development Goals continued, an international climate impact reporting framework was adopted and the Group prepared for the launch of Sustainovate 2025.

In support of the SDGs

The UN's Sustainable Development Goals (SDGs) are a 17-point plan for ending extreme poverty, fighting inequality and injustice and protecting the planet up to 2030. Achieving the SDGs requires significant effort at all levels of society, not least in business, which has a critical role to play as a change agent. Husqvarna Group's biggest contributions to the goals lie in reducing the negative impacts of its operations, contributing to positive change along the value chain and engaging in society at large.

Where the Group can reduce negative impacts of its operations



Where the Group can positively impact customers and value chains



Where the Group can positively impact society at large



A powerful cutting edge

Husqvarna Construction has a stated ambition to lead in battery technologies in its sector. Reflecting that ambition, Husqvarna Construction launched its K 535i battery power cutter for professional use, designed for low vibration and low weight, it is raising the bar on high performance and disc speed. The cutter also brings the freedom of being off-grid. Being battery-powered, users can cut away without worrying about emissions. Since its launch in early 2019, the power cutter has been a sales success.

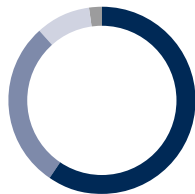




The Group is its people

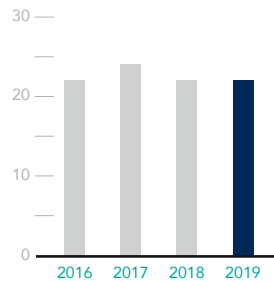
The Group's operations employs some 13,000 people across Europe, North America, Australia and Asia.

Employee (per geographic region)



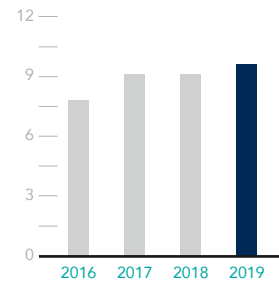
■ Europe, Middle East and Africa, 60 %
 ■ North America 29 %
 ■ Asia Pacific 9 %
 ■ Latin America 2 %

Share of female employees in sr. management positions



■ 25 %

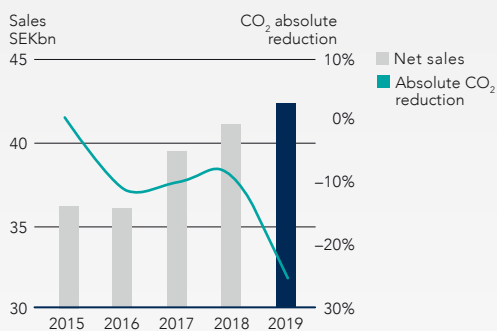
Employee turnover (voluntary)



■ 9.5 %

CASE / Decoupling CO₂ from business growth 2015–2019

The Group aims to cut its CO₂ emissions, while the company continues to grow. Through Sustainovate, the Group is proving that it is possible to decouple business growth from emissions. Measuring progress against sales growth is one way to keep track. Year on year, performance shows that the Group's CO₂ target – which includes emissions from suppliers, manufacturing, transport and product use—is deeply connected to business goals. It also shows it is possible to aim for market leadership and be a sustainability leader, too.



Over the last four years, the Group has reduced CO₂ emissions by 25 percent while increasing sales by 17 percent.

Task Force on Climate-related Financial Disclosures

All companies have a duty to communicate transparently on how their business activities impact the climate and how they address greenhouse gas emissions. In 2019, Husqvarna Group endorsed the Task Force on Climate-related Financial Disclosures (TCFD). It also took its first steps towards disclosing climate impacts under the TCFD framework, thus aligning climate-change reporting with financial market needs to measure and assess climate risks.

The Group will continue to develop its approach to TCFD disclosure to ensure maximum value for investors. As a next step, the Group will quantify climate risks and improve its scenario process. See page 50 for more information.



Solutions fit for the **future**

Husqvarna Group aims to challenge itself and inspire others to transform its industry. Through the creativity of its teams, the Group is pioneering solutions for step-change efficiency and smarter use of resources. By placing Sustainovate at the heart of its business, Husqvarna Group is shaping a company that is built to last.

In 2019, the Group set the course for its Sustainovate journey beyond 2020. It began with an inclusive materiality mapping and analysis of how the Group sees society evolving to 2030. In-depth research was done in key areas relating to climate change, resource scarcity and sustainability risks. The outcome was three Opportunities to deliver value in an era of transformation. Approved by the Board this year, rollout of Sustainovate 2025 will begin in 2020.

While targets to 2020 focused on integrating sustainability deeper into the business across five areas, Sustainovate 2025 addresses three opportunities for change. These include transformation to a low-carbon economy, pioneering ways to deliver great value to customers through circular economy solutions, and inspiring and engaging customers and employees in Group efforts.

Sustainovate's overall ambition is to trigger creativity, energy and pride across the company. Its aims highlight opportunities that leadership in sustainability

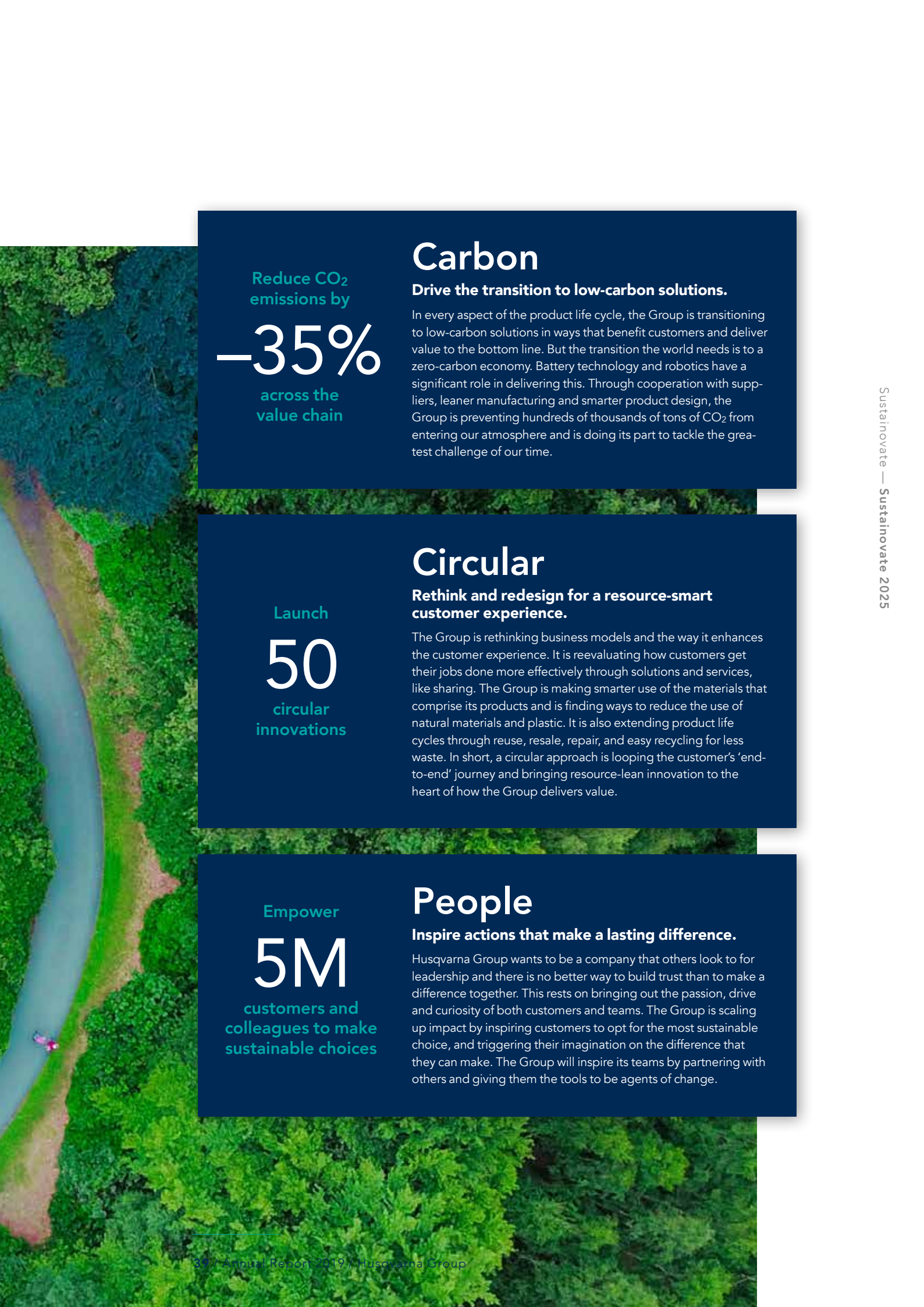
brings and have strongly influenced the 2025 business strategy. This further underlines how the sustainability agenda is business-critical for the Group.

Ambitious targets for 2025

Sustainovate's three aspirations explain the difference the Group intends to make within Carbon, Circular and People. The three targets show if and when these aspirations have been achieved.

The new target of a 35 percent CO₂ reduction across the value chain is an absolute reduction target rather than a carbon-intensity reduction, which was how the 2020 target was defined. The baseline year continues to be 2015. It is in line with the latest science and reflects what needs to be done to limit a global temperature increase to 1.5°C. 2020 is the starting point for Circular and People goals.

SUSTAINOVATE 2025



Reduce CO₂
emissions by

—35%
across the
value chain

Carbon

Drive the transition to low-carbon solutions.

In every aspect of the product life cycle, the Group is transitioning to low-carbon solutions in ways that benefit customers and deliver value to the bottom line. But the transition the world needs is to a zero-carbon economy. Battery technology and robotics have a significant role in delivering this. Through cooperation with suppliers, leaner manufacturing and smarter product design, the Group is preventing hundreds of thousands of tons of CO₂ from entering our atmosphere and is doing its part to tackle the greatest challenge of our time.

Launch

50
circular
innovations

Circular

Rethink and redesign for a resource-smart customer experience.

The Group is rethinking business models and the way it enhances the customer experience. It is reevaluating how customers get their jobs done more effectively through solutions and services, like sharing. The Group is making smarter use of the materials that comprise its products and is finding ways to reduce the use of natural materials and plastic. It is also extending product life cycles through reuse, resale, repair, and easy recycling for less waste. In short, a circular approach is looping the customer's 'end-to-end' journey and bringing resource-lean innovation to the heart of how the Group delivers value.

Empower

5M
customers and
colleagues to make
sustainable choices

People

Inspire actions that make a lasting difference.

Husqvarna Group wants to be a company that others look to for leadership and there is no better way to build trust than to make a difference together. This rests on bringing out the passion, drive and curiosity of both customers and teams. The Group is scaling up impact by inspiring customers to opt for the most sustainable choice, and triggering their imagination on the difference that they can make. The Group will inspire its teams by partnering with others and giving them the tools to be agents of change.

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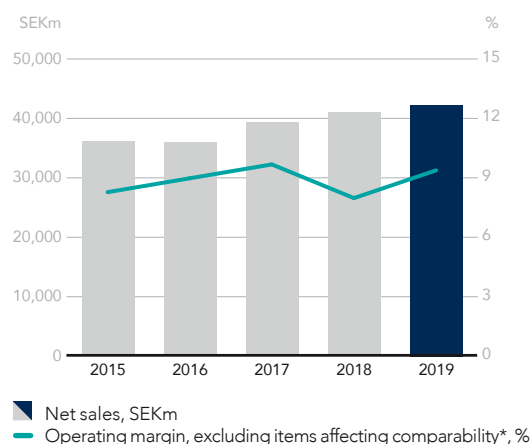
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Board of Directors' Report

The Board of Directors (Board) and the President and CEO (the CEO) of Husqvarna AB (publ), corporate registration number 556000-5331, with its registered office in Jönköping, Sweden, hereby submit the Annual Report and consolidated financial statements for the 2019 financial year.

- Net sales increased by 3% to SEK 42,277m (41,085). Adjusted for changes in exchange rates* net sales decreased by 2%. Net sales increased by 1%, adjusted for the exited Consumer Brands business and changes in exchange rates*.
- Net sales, adjusted for changes in exchange rates* decreased by 4% in the Husqvarna Division, was flat in the Gardena Division and increased by 5% in the Construction Division.
- Operating income amounted to SEK 3,690m (2,070), and to SEK 3,915m (3,241), excluding items affecting comparability*.
- The higher operating income was primarily a result of price increases, restructuring and efficiency savings and was partly offset by continued investments in strategic growth initiatives as well as higher costs related to trade tariffs and raw materials.
- Operating margin, excluding items affecting comparability*, amounted to 9.3% (7.9).
- Net income amounted to SEK 2,528m (1,213).
- Earnings per share amounted to SEK 4.42 (2.12) after dilution.
- Operating cash flow* amounted to SEK 2,676m (–248).
- Net working capital to sales amounted to 27.3% (25.9).
- The net debt/equity ratio was 0.65 (0.62).
- The Board proposes a dividend for 2019 of SEK 2.25 (2.25) per share to the AGM.

Net sales and operating margin



Key figures

SEKm	2019	2018	2017 ¹	2016	2015
Net sales	42,277	41,085	39,394	35,982	36,170
Gross margin, %	29.6	25.6	29.1	30.8	28.1
EBITDA*	5,779	4,000	5,105	4,382	3,980
EBITDA margin, %	13.7	9.7	13.0	12.2	11.0
Items affecting comparability* ²	–225	–1,171	–	–	–153
Operating income	3,690	2,070	3,790	3,218	2,827
Operating income, excl. items affecting comparability*	3,915	3,241	3,790	3,218	2,980
Operating margin, %	8.7	5.0	9.6	8.9	7.8
Operating margin, excl. items affecting comparability*, %	9.3	7.9	9.6	8.9	8.2
Income after financial items	3,122	1,561	3,290	2,796	2,483
Net income	2,528	1,213	2,660	2,104	1,888
Earnings per share after dilution, SEK	4.42	2.12	4.62	3.66	3.28
Dividend per share, SEK ³	2.25	2.25	2.25	1.95	1.65
Return on capital employed, %	12.9	7.6	14.7	13.7	12.4
Return on equity, %	14.7	7.3	17.4	15.2	14.6
Net debt/equity ratio	0.65	0.62	0.46	0.48	0.49
Operating cash flow* ⁴	2,676	–248	1,847	1,666	1,732
Average number of employees	12,708	13,206	13,252	12,704	13,572

¹Restatement of 2017 due to IFRS 15 transition, reclassification of certain exchange rate effects, and reclassification of certain sales between segments.

²Items affecting comparability* are provided on page 43.

³2019 as proposed by the Board.

⁴Cash flows related hedging of financing have been moved from operations to financing activities (SEK –64m for 2015). The equivalent amount has affected the operating cash flow.

*Alternative Performance Measure, refer to "Definitions".

Net sales and income

Net sales

Net sales in 2019 increased by 3% to SEK 42,277m (41,085) and decreased by 2%, if adjusted for changes in exchange rates*. Net sales increased by 1%, adjusted for the exited Consumer Brands business and changes in exchange rates. Net sales decreased by 4% in the Husqvarna Division, was flat in the Gardena Division and increased by 5% in the Construction Division, if adjusted for changes in exchange rates*.

Operating income

Operating income amounted to SEK 3,690m (2,070), including SEK –225m (–1,171) of items affecting comparability*. Operating income excluding items affecting comparability* increased to SEK 3,915m (3,241). The higher result was primarily related to price increases, restructuring and efficiency savings and was partly offset by continued investments in strategic growth initiatives as well as higher costs related to trade tariffs and raw materials. There was a net positive impact, resulting from the sale of an asset as well as some asset write downs, amounting to approximately SEK 60m (55). Changes in exchange rates had a positive effect of approximately SEK 350m compared to last year, excluding items affecting comparability*.

Financial items net

Financial items net amounted to SEK –568m (–509).

Income after financial items

Income after financial items amounted to SEK 3,122m (1,561).

Taxes

Income tax amounted to SEK –594m (–348) corresponding to a tax rate of 19% (22).

Earnings per share

Income for the period attributable to equity holders of the Parent Company was SEK 2,527m (1,212), corresponding to SEK 4.42 (2.12) per share after dilution.

Net sales by region

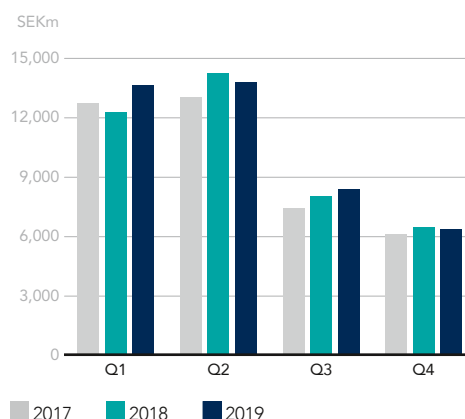
%	2019	2018
Germany	14.0	13.5
France	5.8	5.5
Sweden	4.2	4.1
Austria	3.1	3.0
Rest of Europe	24.5	25.2
Europe	51.6	51.3
Asia/Pacific	8.5	7.8
Canada	3.0	3.3
US	32.8	33.8
Latin America	3.2	3.1
Rest of the world	0.9	0.7
Total	100.0	100.0

EBITDA*

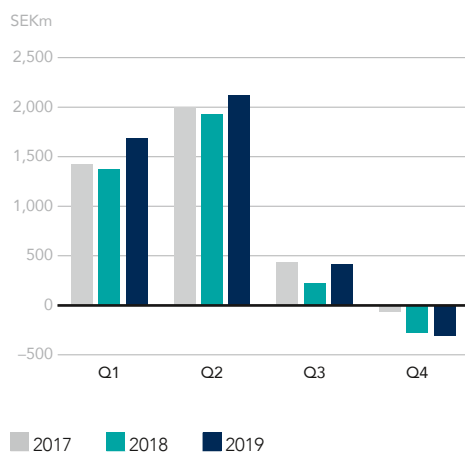
SEKm	2019	2018
Operating income	3,690	2,070
Reversal of depreciation, amortization and impairment	2,089	1,930
EBITDA*	5,779	4,000
Excl. items affecting comparability*	5,996	4,710
EBITDA margin, %	13.7	9.7
Excl. items affecting comparability*	14.2	11.5

* Alternative Performance Measure, refer to "Definitions".

Net sales by quarter



Operating income per quarter¹



¹ Excluding items affecting comparability*.

Earnings per share and return on equity



Items affecting comparability*

SEKm	2019	2018	2017	2016	2015
Restructuring related expenses	-225	-1,171	-	-	-153
Total	-225	-1,171	-	-	-153

Restructuring related expenses

SEKm	2019	2018
Restructuring provisions	-213	-382
Impairment of non-current assets	-8	-461
Write down of inventory	-4	-328
Total items affecting comparability*	-225	-1,171

Classification in the income statement

SEKm	2019	2018
Cost of goods sold	-117	-1,077
Selling expenses	-57	-48
Administrative expenses	-51	-46
Total items affecting comparability*	-225	-1,171

Operating cash flow*

Operating cash flow* increased to SEK 2,676m (-248). The increase was related to higher operating income and positive effects from changes in inventories and trade receivables and was partly offset by changes in payables

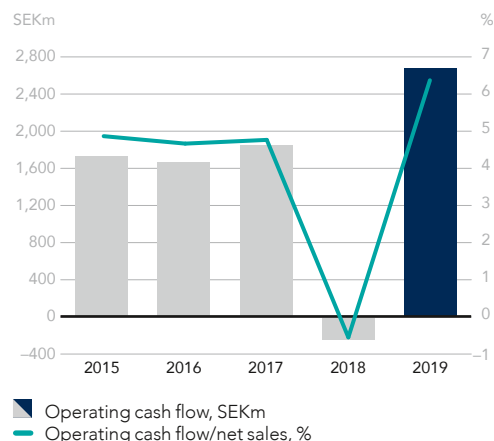
SEKm	2019	2018
Cash flow from operations, excluding changes in operating assets and liabilities	4,476	3,196
Cash flow from operating assets and liabilities	432	-1,209
Cash flow from operations	4,908	1,987
Cash flow from investments in property, plant and equipment and intangible assets	-2,232	-2,235
Operating cash flow*	2,676	-248

Capital expenditure and Research & Development (R&D)

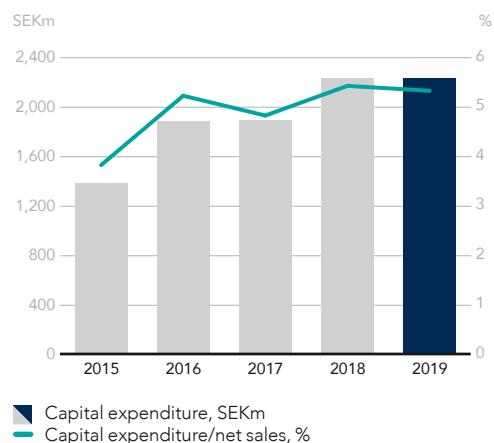
Capital expenditure in 2019 amounted to SEK 2,232m (2,235), corresponding to 5.3% (5.4) of net sales. Investments in property, plant and equipment amounted to SEK 1,577m (1,542) and investments in intangible assets, exclusive goodwill, totalled SEK 655m (693), of which SEK 521m (493) was related to product development and SEK 133m (199) to IT and software.

R&D expenses, which are included in cost of goods sold, amounted to SEK 1,720m (1,581), of which SEK 351m (265) was amortization of capitalized product development (intangible assets). The total R&D expenses thus corresponded to 4.1% (3.8) of net sales.

Operating cash flow*



Capital expenditure



* Alternative Performance Measure, refer to "Definitions".

Financial position

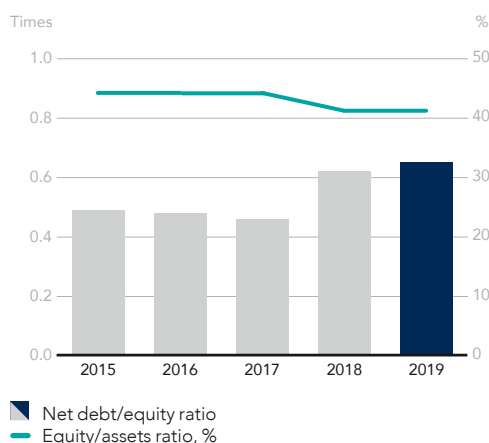
Operating working capital*

Operating working capital* at year-end amounted to SEK 10,379m (10,058). Inventories decreased to SEK 10,858m (11,067), trade receivables amounted to SEK 3,620m (3,613) and trade payables amounted to SEK 4,099m (4,622).

Change in operating working capital*

SEKm	
December 31, 2018	10,058
Changes in exchange rates	377
Changes in working capital	-56
December 31, 2019	10,379

Net Debt/Equity and Equity/Assets ratio



Equity

Group equity as of December 31, 2019, excluding non-controlling interests, increased to SEK 17,281m (16,007), corresponding to SEK 30.2 (28.0) per share after dilution.

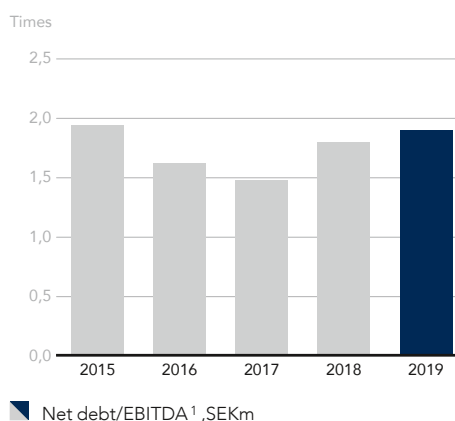
Net debt*

Net debt* amounted to SEK 11,315m (9,875). The net pension liability increased to SEK 2,427m (1,943), other interest-bearing liabilities increased to SEK 11,786m (10,013) and liquid funds and other interest-bearing assets increased to SEK 2,898m (2,081).

The net debt/equity ratio rose to 0.65 (0.62) and the equity/assets ratio was 41% (41). For more information about the Group's funding, see note 20.

SEKm	2019	2018
Net pension liability	2,427	1,943
Other interest-bearing liabilities	11,786	10,013
Less: Liquid funds and other interest-bearing assets	-2,898	-2,081
Net debt*	11,315	9,875
Net debt/equity ratio	0.65	0.62
Equity/assets ratio, %	41	41
Net debt/EBITDA	1.9	1.8

Net debt/EBITDA¹



¹ Excluding items affecting comparability*.

* Alternative Performance Measure, refer to "Definitions".

Performance by business segment

Husqvarna Division

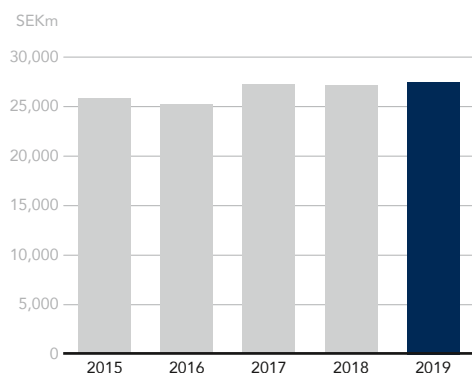
Net sales in the Husqvarna Division increased by 1% or decreased by 4% adjusted for changes in exchange rates*. Net sales was flat when adjusted for exited Consumer Brands business.

Operating income increased to SEK 2,260m (1,228). Operating income, excluding items affecting comparability*, increased to SEK 2,427m (2,106) and the operating margin was 8.8% (7.8). Price increases, restructuring and efficiency savings contributed positively and was partly offset by higher costs for tariffs and raw materials as well as strategic growth initiatives. Items affecting comparability* amounted to SEK -167m (-878). Changes in exchange rates had a positive effect of approximately SEK 210m compared with last year, excluding items affecting comparability*.

Husqvarna

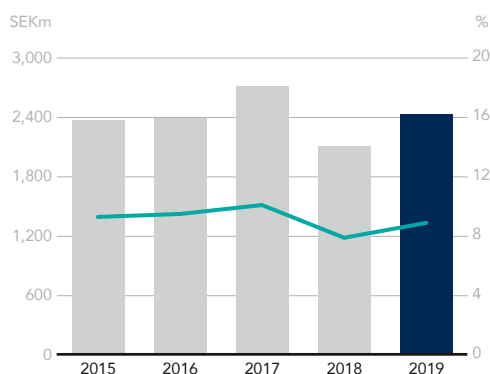
SEKm	2019	2018	Change, %
Net sales	27,506	27,156	1
Currency adjusted change *, %	-4	-2	-
Operating income	2,260	1,228	84
Excl. items affecting comparability *	2,427	2,106	15
Operating margin, %	8.2	4.5	-
Excl. items affecting comparability *	8.8	7.8	-

Net sales, Husqvarna



Net sales, SEKm

Operating income and margin, Husqvarna



Operating income¹, SEKm
Operating margin¹, %

¹Excluding items affecting comparability*.

*Alternative Performance Measure, refer to "Definitions".

Gardena Division

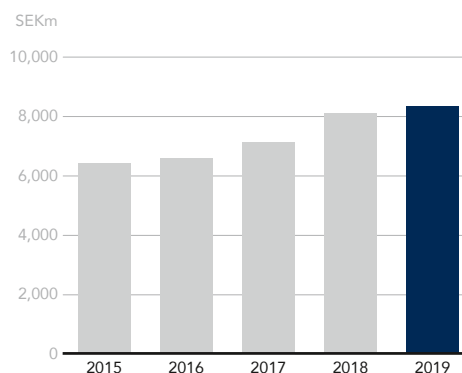
Net sales in the Gardena Division increased by 3% or was unchanged if adjusted for changes in exchange rates*. Net sales increased by 3% when adjusted for exited Consumer Brands business.

Operating income increased to SEK 847m (425). Operating income, excluding items affecting comparability*, increased 30% to SEK 847m (651) and the operating margin was 10.2% (8.0), excluding items affecting comparability*. Price increases, mix improvements as well as restructuring and efficiency savings had a positive impact. Items affecting comparability* amounted to SEK 0m (-226). Changes in exchange rates had a positive effect of approximately SEK 25m compared with last year, excluding items affecting comparability*.

Gardena

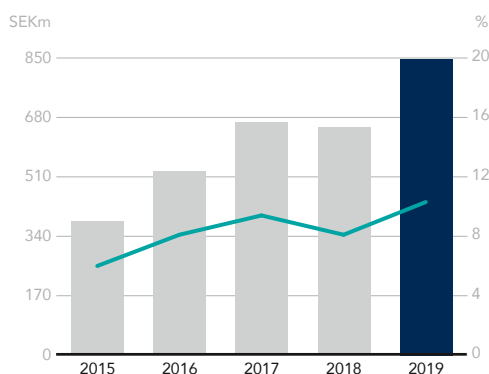
SEKm	2019	2018	Change, %
Net sales	8,343	8,118	3
Currency adjusted change *, %	0	8	-
Operating income	847	425	99
Excl. items affecting comparability *	847	651	30
Operating margin, %	10.2	5.2	-
Excl. items affecting comparability *	10.2	8.0	-

Net sales, Gardena



Net sales, SEKm

Operating income and margin, Gardena



Operating income¹, SEKm
Operating margin¹, %

¹Excluding items affecting comparability*.

*Alternative Performance Measure, refer to "Definitions".

Construction Division

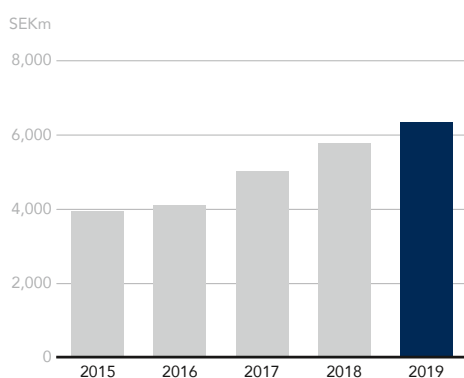
Net sales in the Construction Division increased by 10% or by 5% if adjusted for changes in exchange rates*.

Operating income increased to SEK 779m (672). Operating income, excluding items affecting comparability*, increased to SEK 836m (716) and the operating margin was 13.2% (12.4), excluding items affecting comparability*. Higher sales volumes and price increases contributed positively. Items affecting comparability* amounted to SEK –57m (–44). Changes in exchange rates had a positive effect of approximately SEK 115m compared with last year, excluding items affecting comparability*.

Construction

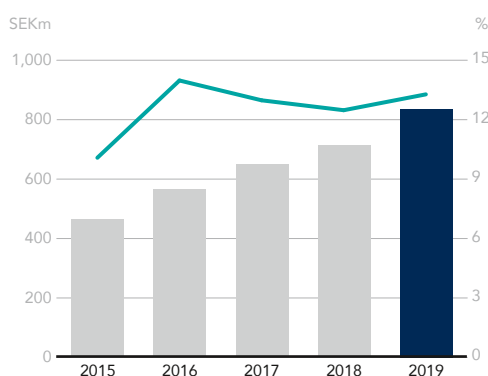
SEKm	2019	2018	Change, %
Net sales	6,340	5,762	10
Currency adjusted change*, %	5	12	–
Operating income	779	672	16
Excl. items affecting comparability*	836	716	17
Operating margin, %	12.3	11.7	–
Excl. items affecting comparability*	13.2	12.4	–

Net sales, Construction



■ Net sales, SEKm

Operating income and margin, Construction



■ Operating income¹, SEKm
— Operating margin¹, %

¹ Excluding items affecting comparability*.

* Alternative Performance Measure, refer to "Definitions".

Restructuring of the Consumer Brands Division

As communicated in press releases in 2018, Husqvarna Group is exiting certain low-margin petrol-powered product segments in the underperforming former Consumer Brands Division and instead focusing on its strengths in premium offerings under the core brands of Husqvarna and Gardena.

Restructuring measures were implemented 2018–2019 with a total cost of some SEK 1.2 billion before tax, of which some SEK 400m refers to cash items. In 2018, and in the first quarter of 2019 a total of SEK 1,171m and SEK 42m respectively was reported as restructuring related expenses and charged to the Group's income statement. The restructuring measures has resulted in annual savings of around SEK 250m with full effect from 2020. The lower business volume will also reduce the net working capital need in the Group by up to SEK 1 billion over the coming years. In 2019 the Group exited net sales of SEK 1.4 billion.

Additional restructuring initiatives

In November 2019 additional restructuring initiatives were launched. The initiatives are expected to deliver annual cost savings of SEK 150m, of which the majority will be realized in 2020 and the remainder in 2021. Restructuring costs for the initiatives are expected to amount to about SEK 200m, whereof SEK 183m were charged to the result in the fourth quarter of 2019. In 2020, the group plan to exit about SEK 2.2 billion of low gross margin business that previously was within the Consumer Brands Division.

Financial targets presented at the Capital Markets Day

A Capital Markets Day was held on September 17, 2019. Financial targets was presented and as from 2020 the Group's three financial targets are:

- Annual net sales growth of 4–5%, defined as 2 percentage points above market growth (historically 2–3%).
- An operating margin above 10%.
- Operating working capital in relation to net sales of a maximum of 25%.

Group management changes

Pavel Hajman, Senior Vice President Operations Development, assumed the additional role as CIO (Chief Information Officer) effective October 11, 2019. Pavel replaces Hillevi Agranus, who left Husqvarna Group on October 11, 2019 for an external opportunity.

Acquisition of power trowel business

In 2019, Husqvarna Group's Construction Division has acquired the Concrete Power Trowel business from Wacker Neuson Group. The acquisition included all the product, R&D and manufacturing assets relating to walk-behind and ride-on concrete power trowels. Sales in the power trowel segment (acquired assets) in 2018 amounted to about SEK 150m.

Subsequent events

Appointment of new President and CEO

The Board of Husqvarna AB has appointed Henric Andersson to succeed Kai Wörn as the President and CEO of the Husqvarna Group effective as of April 2, 2020, following the closing of the 2020 AGM. Henric Andersson is currently President of the Construction Division of Husqvarna Group and has been a member of Group Management team since 2012. He was born in 1973 and has a Master of Science degree in Industrial Engineering & Management from Linköping Institute of Technology, Sweden.

Parent Company

Net sales for 2019 for the Parent Company, Husqvarna AB, amounted to SEK 17,838m (17,185), of which SEK 13,983m (13,612) referred to sales to Group companies and SEK 3,855m (3,573) to external customers.

Income after financial items increased to SEK 8,512m (–415), mainly due to Group internal transactions. Income for the period increased to SEK 8,530m (55). For more information, refer to note 10 in the Parent Company. Investments in property, plant and equipment and intangible assets amounted to SEK 1,215m (1,303). Cash and cash equivalents amounted to SEK 650m (165) at the end of the year. Undistributed earnings in the Parent Company amounted to SEK 27,351m (20,334).

The Husqvarna share

At year-end 2019, the share capital in Husqvarna AB amounted to SEK 1,153m (1,153), comprising of 112,015,629 A-shares (112,437,551) and 464,328,149 B-shares (463,906,227).

For further information on the change in the number of shares during the year, see note 19. Each A-share carries one vote and each B-share carries 1/10th of a vote. All shares enjoy equal rights in terms of the Company's assets and earnings. There are no restrictions on the transfer of shares, voting rights or the right to participate in the Annual General Meeting (AGM).

The Company is not aware of any agreements between shareholders that may limit the right to transfer shares. In addition, there are no stipulations in the Articles of Association regarding appointment or dismissal of Board members or agreements between the Company and Board members or employees that require remuneration if such persons leave their posts, or if employment is terminated, as a result of a public bid to acquire shares in the Company.

As of December 31, 2019, the largest shareholders were Investor AB, with 33.1% (33.0) of the votes, and L E Lundberg-företagen, with 25.1% (25.1) of the votes. No other shareholder held more than 10% of the votes. Market capitalization amounted to SEK 43bn (38) at the end of 2019. For more information on major shareholders, see section "The share".

Authorization for new share issue and equity swaps of B-Shares

The 2019 AGM resolved to authorize the Board to decide on one or more occasions, until the next AGM, to have the Company enter into one or more share swap agreements with third parties on terms consistent with market practice. The purpose is to secure the Company's obligations due to adopted incentive programs.

The participants in the Group's long-term incentive programs have been granted share awards and when the conditions of the performance period for each program ends, shares are transferred to them in accordance with the conditions of the programs and made without consideration.

The participants in the Husqvarna LTI 2016 program were granted matching and performance share awards in 2016 and 529,252 B-shares were transferred to the participants in May 2019 when the vesting period ended.

At year-end 2019, Husqvarna AB had equity-swap agreements whereby a third-party bank had acquired 4,141,164 B-shares to cover obligations under Husqvarna long-term incentive programs. The Company did not own any own shares at the end of 2019.

In addition, the 2019 AGM authorized the Board to resolve to issue not more than 57.6 million B-shares, representing 10% of the total number of shares in issue, to facilitate acquisitions where the consideration will be paid with own shares. No such issuance was made in 2019.

Legal matters and compliance

Companies within Husqvarna Group are involved in commercial, product liability, regulatory and other disputes in the ordinary course of business. Such disputes can involve claims for compensatory damages, fines and penalties, property damage or personal injury compensation and occasionally also punitive damages. For certain types of claims (primarily product liability litigation), the Group has self-insurance, up to certain limits, as well as external "excess" coverage. The Group continuously monitors and evaluates pending claims and disputes, and acts when deemed necessary. The Company believes that these activities help to minimize such risks. It is difficult to predict the outcome of each dispute, but based on its present knowledge, the Group estimates that none of the disputes in which it is currently involved will have a material adverse effect on the consolidated financial position or result.

Husqvarna Group is committed to a culture of compliance. Honesty and fairness have always characterized the Group's way of doing business and the highest standards of integrity are expected of every employee in every country where the Group does business. Such commitment is reflected in the Code of Conduct that was adopted in 2008 and substantially revised in 2018.

In 2019 over 3,600 Group employees participated in either online or live Code of Conduct training which was also offered to all new hires. Additionally, employees who become aware of any non-compliance or other unethical conduct are expected to report such matters to the internal compliance function. Such reports may be made directly to a manager, via a dedicated compliance email or anonymously via a 24-hour toll-free call-in center or online at husqvarnagroup.ethicspoint.com.

Husqvarna Group requires that all of its suppliers, agents, distributors and other business partners ("Third-Parties") comply with the business and workplace standards as defined in the Code of Conduct. In 2019, the Group further strengthened its compliance focus through several new policies and programs, including a new Third-Party Due Diligence Policy, further safeguarding that the Group is only doing business with reputable and compliant Third-Parties. Husqvarna AB also became a member of Transparency International Sweden's Corporate Supporters Forum in 2019 which is committed to the education, awareness and prevention of corruption among its corporate members.

Sustainability

In accordance with the Swedish Annual Accounts Act chapter 6, §11, Husqvarna Group has chosen to establish the statutory sustainability report as a report separated from the Annual Report. The sustainability report (Sustainovate Progress report 2019) has been submitted to the auditor at the same time as the Annual Report and is available on www.husqvarnagroup.com.

The sustainability report presents "Sustainovate", which is Husqvarna Group's approach to integrate sustainability into the business. The report is framed around five challenges that are most relevant to the Group's ability to create economic, social and environmental value for its stakeholders. According to the Swedish Annual Accounts Act chapter 6, §12, Husqvarna Group is required to report on certain sustainability and corporate responsibility related issues which are presented in the Sustainovate Progress report 2019. A table describing policies and procedures, sustainability risks, management systems and monitoring processes of material issues relating to the environment, human rights, social and personnel and anti-corruption is available on page 43 in the report.

Task Force on Climate-Related Financial Disclosures (TCFD)

The Husqvarna Group supports the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which are

intended to ensure that investors and other stakeholders are adequately informed about the risks posed to companies by climate change. In line with the TCFD recommendations, the Group has included in this 2019 Annual Report certain information regarding the Governance and Risk Management of such topics. See Risk Management section on page 50.

Environmental permits

In 2019, Husqvarna Group operated 30 production facilities, of which 20 were in Europe, four in the US, three in China, one in Brazil, Japan and Australia. All facilities have the environmental permits required for current operations.

Husqvarna Group included in CSR indexes

Husqvarna Group is a member of the FTSE4Good Index Series and a member of the STOXX Global ESG Leaders index. These indexes are designed to facilitate investments in companies that meet globally recognized corporate responsibility standards in environmental care, social care and corporate governance.

Employees

The average number of employees in 2019 was 12,708 (13,206), of which 2,117 (2,069) were employed in Sweden. At year-end, the total number of employees was 13,083 (14,076). Of the total average number of employees in 2019, 8,582 (8,693) were men and 4,126 (4,513) were women.

Salaries and remuneration in 2019 amounted to SEK 5,833m (5,712), of which SEK 1,311m (1,263) refers to Sweden. For more information on employees, see note 4.

Annual General Meeting 2020

The AGM of Husqvarna AB (publ) will be held in Jönköping, Sweden on April 2, 2020.

Notification and proposals to the AGM

The notification to attend the 2020 AGM has been available on the Group's website, www.husqvarnagroup.com, since February 28, 2020. The full proposal to the AGM will be available on the Group's website at the latest by March 12, 2020.

Proposed distribution of earnings

The Board proposes a dividend for 2019 of SEK 2.25 per share (2.25) corresponding to a total dividend payment of SEK 1,287m (1,286) based on the number of outstanding shares at the end of 2019. It is also proposed that the dividend be paid in two installments to better match the Group's cash flow profile, with one payment of SEK 0.75 per share in April and the remaining SEK 1.50 per share in October. The proposed record dates are April 6, 2020, for the first payment and October 6, 2020, for the second payment.

SEKt	
The following profits are at the disposal of the AGM:	
Share premium reserve	2,605,747
Retained earnings	16,215,401
Net income	8,530,250
Total	27,351,398
SEKt	
The Board proposes the following allocation of available profits:	
Dividend to the shareholders of SEK 2.25 per share ¹	1,287,456
To be carried forward	26,063,942
Total	27,351,398

¹ Calculated on the number of outstanding shares as of December 31, 2019.

The Board is of the opinion that the dividend proposed above is justifiable on both the Company and the Group level with regard to the demands on the Company and Group equity imposed by the type, scope and risks of the business and with regard to the Company and the Group's financial strength, liquidity and overall position.

Principles for remuneration to Group Management and remuneration to the Board

For the CEO and other members of Group Management, the principles for remuneration approved by the 2019 AGM currently apply. The principles are subject for review and the Board will propose that the updated principles set out below should be approved by the 2020 AGM for the period up to and including the 2021 AGM.

The Board proposes that the following remuneration guidelines, for the CEO and other members of Group Management, should be approved by the 2020 AGM.

These guidelines do not apply to any remuneration otherwise decided or directly approved by the AGM or other general meeting.

The overarching ambition of the Group's strategy is market leadership, of which long-term profitable growth and being the innovation leader are important aspects. Built on a strategy for market leadership, the Group's business model is designed for profitable growth, bringing the best forestry, lawn and garden and construction solutions to the market by maximizing assets and minimizing waste and carbon dioxide from operations. Further information on the Group's strategy and financial targets can be found on the Group's website, www.husqvarnagroup.com.

A prerequisite for the successful implementation of the Company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the Company is able to recruit and retain qualified personnel. To this end, it is necessary that the Company offers competitive remuneration.

The guidelines set forth in this section shall apply to remuneration and other employment conditions of Group Management. The guidelines shall apply to contracts of employment entered into after the 2020 AGM and also to amendments made thereafter to contracts of employment which are in force.

Remuneration to members of Group Management shall be on market terms and based on the position held, individual performance and Group performance, and shall be on a competitive basis in the country of employment. The overall remuneration package for Group Management is comprised of fixed cash salary, variable cash remuneration in the form of short-term incentives based on annual performance targets, long-term incentives, pension and other benefits. In addition, there are conditions on notice of termination and severance pay.

Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

Husqvarna Group shall aim to offer a competitive total remuneration level with a primary focus on "pay for performance". For more information on principles for remuneration to Group Management and remuneration to the Board, refer to note 4.

Fixed cash salary

Fixed salary shall constitute the basis for total remuneration and may amount to not more than 70% of the total remuneration. The salary shall be related to the relevant market and shall reflect the degree of impact, contribution and knowledge involved in the position. The salary levels shall be reviewed regularly (normally annually) in order to ensure continued competitiveness and reward performance.

Variable cash remuneration (Short-term Incentive, "STI")

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration may amount to not more than 150% of the fixed salary and not more than 50% of the total remuneration. The Board decides whether the maximum levels shall be utilized or if a lower level shall be used. The level of STI is set by the Board based on size of position, taking into account degree of impact, contribution and knowledge involved in the position but also country of employment.

The STI shall be based on the financial result for the Group and/or for the business unit for which the member of Group Management is responsible. The variable remuneration shall be based on predetermined and measurable criterias, such as operating income, net sales growth, operating working capital and cost efficiency programs. Each criteria/target has a defined minimum/entry level, which must be exceeded for variable remuneration to be paid, and a maximum/stretch level. The criteria are designed so as to contribute to the Company's business strategy and long-term interests, including its sustainability. To which extent the criteria for awarding variable remuneration has been satisfied shall be evaluated/determined when the measurement period has ended. The People & Sustainability Committee (formerly the "remuneration committee", see page 58) is responsible for the evaluation and it shall be based on the latest financial information made public by the Company.

Long-term incentive

The Board will annually evaluate if a long-term incentive program should be offered and be proposed to the AGM. The award level of such long-term incentive program may amount to not more than 120% of the fixed salary when the program is launched and not more than 50% of the total remuneration.

Pension and other benefits

Pension and disability benefits shall be designed to reflect regulations and practice in the country of employment. Pension plans shall be defined contribution plans and the employer contribution, including contributions for disability pension/insurance, may amount to not more than 40% of the fixed cash salary and not more than 30% of the total remuneration.

Other benefits may include, for example, life and health care insurance, housing allowance and company cars. Costs relating to such benefits may amount to not more than 20% of the fixed cash salary and not more than 15% of the total remuneration. For employments governed by mandatory rules, pension and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Group Management members who are expatriates may receive additional remuneration and benefits to the extent reasonable in light of the special circumstances associated with the expatriate arrangement, taking into account, to the extent possible, the overall purpose of these guidelines. Such remuneration and benefits may not in total exceed 80% of the fixed cash salary.

Termination of employment

The notice period may not exceed twelve months if notice of termination of employment is made by the Company. Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to fixed salary for two years. The period of notice may not exceed six months without any right to severance pay when termination is made by the executive. Members of Group Management shall be obliged not to compete with the Company during the notice period. Based on the circumstances in each case, a non-compete obligation with con-

tinued severance pay may be applied also after the end of the notice period. Non-compete obligation shall not apply for more than 24 months from the end of the notice period and the severance pay during such non-compete period may not exceed an amount equivalent to the fixed salary.

Additionally remuneration may be paid for non-compete undertakings to compensate for loss of income and shall only be paid in so far as the previously employed Group Management member is not entitled to severance pay. The remuneration shall amount to not more than 60% of the fixed salary at the time of termination of employment, unless otherwise provided by mandatory collective agreement provisions, and be paid during the time the non-compete undertaking applies, however not for more than 24 months following termination of employment.

Salary and employment conditions for employees

In the preparation of the Board's proposal for these remuneration guidelines, salary and employment conditions for employees of the Company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the People & Sustainability Committee's and the Board's basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable. The development of the gap between the remuneration to executives and remuneration to other employees will be disclosed in the remuneration report.

The decision-making process to determine, review and implement the guidelines

The Board has established a People & Sustainability Committee. The Committee's tasks include preparing the Board's decision to propose guidelines for Group Management remuneration. The Board shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The People & Sustainability Committee shall also monitor and evaluate programs for variable remuneration for Group Management, the application of the guidelines for Group Management remuneration as well as the current remuneration structures and compensation levels in the Company.

The members of the People & Sustainability Committee are independent of the Company and its Group Management. The CEO and other members of Group Management do not participate in the Board's processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

Derogation from the guidelines

The Board may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability. As set out above, the People & Sustainability Committee's tasks include preparing the Board's resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines. Any derogation from the guidelines must not cause any of the remuneration elements to exceed two times the maximum level specified in these guidelines.

Remuneration to the Board 2019

Remuneration to AGM-elected Board members is resolved by the AGM based on proposals from the Nomination Committee. The 2019 AGM resolved on fees of SEK 6,290t. No consulting fees were paid to Board members and no Board fees are paid to Board members who are also employed by the Group. For more information concerning remuneration, see note 4.

Risk management

All business operations involve risk. Therefore, the goal of risk management is not to eliminate risk, but rather to optimize an organization's risk portfolio to best secure its business goals. The Husqvarna Group has therefore implemented controls and governance processes to identify and prioritize all material risks that may affect its operations, and to limit, control and proactively manage these risks.

Task Force on Climate-Related Financial Disclosures (TCFD)

In 2016, the Task Force on Climate-Related Financial Disclosures (TCFD) issued a set of recommendations on how companies should improve disclosures relating to risks and opportunities posed by climate change, including disclosures relating to governance, strategy, risk management, metrics and targets. In 2019, the Husqvarna Group formally endorsed the recommendations of TCFD and began work to implement those recommendations in its annual reporting process. As part of this, the Group engaged senior management and subject-matter experts to ensure that these risks are identified and managed as an integrated part of the overall risk management efforts. The Group has also formalized oversight responsibilities for climate-related risks including at the Board and Group Management levels. Beyond improving transparency via public disclosures, these efforts have also spurred further efforts by Group Management to develop plans for addressing risks related to climate change and, where possible, to take advantage of potential business opportunities.

In order to ensure an integrated approach, the Group has decided to make TCFD disclosures part of the overall Risk Management section and, where applicable, elsewhere in this Annual Report. To facilitate ease of reference, the Group has indicated below those specific disclosures which are particularly relevant to TCFD with the symbol ">".

At present, the majority of TCFD related disclosures are "qualitative" in nature. As work on these topics matures, the Group aims to provide more "quantitative" disclosures, including potential financial impacts based on various future scenarios and, possibly, more specific targets and metrics.

Responsibilities and accountability

The Board is ultimately responsible for ensuring effective risk management. The Board has delegated this responsibility, in part, to the CEO, who must act in accordance with the Board's guidelines and instructions. Presidents of divisions and Senior Vice Presidents of the Group functions, in turn, are responsible for risk management implementation within their respective divisions and areas of responsibility. The Group also has a dedicated risk management function that:

- oversees the Group's overall Enterprise Risk Management program,
- secures appropriate insurance coverage for insurable risks, and
- assesses and facilitates the prioritization of the Group's risks.

Management of financial risks, including currency exchange rate exposure, is primarily the responsibility of Group Treasury.

Integration in core business processes – The process for identifying, assessing and managing risk is an integral part of the core business processes, including periodic strategy updates, the annual budget process and project management. Risk management is integrated in the annual budget process in order to capture events and cir-

cumstances with potential for material financial impact. This means integrating these risks into annual financial targets, raising attention to management and contributing to a proactive response. Risk management conducted as part of periodic strategy updates (both Group and divisional) helps capture events and circumstances that could significantly hinder longer term strategic priorities and goals. Risk Management in more day-to-day work is guided by a comprehensive set of Group Policies and related procedures. The Group has several specialist functions, i.e., Internal Audit, Compliance & Integrity, Security, Internal Control, Quality and Sustainability that oversee effectiveness of risks management activities within their respective competency areas.

Changing market strategic risks

For more information on mega trends with related opportunities and risks affecting strategy execution in the mid-term, see page 8. (Financial and operational risks are addressed separately below.)

Business operational risks

The following sections highlight certain operational risks the Group face across the entire value chain that are deemed material for the Group within the next one to five year period unless otherwise indicated.

A. Product and Service Development:

Time to Market – Husqvarna Group, as any company, is subject to the risk that its competitors can develop and offer alternative products at a better cost-to-performance ratio. Product life cycles are becoming shorter, requiring more efficient product development processes. Certain Group products require longer development lead times, thus requiring a deep understanding of the end-customers' needs.

Product compliance – Husqvarna Group is subject to a vast array of laws, regulations and industry standards where the Group has a presence. These are applicable to Group products in terms of design, operation, chemical content, noise, safety and (in the case of petrol products) exhaust emissions. Any failure to comply with such product standards could harm end-customers and result in significant costs, e.g., as a result of "stop sale" orders, product recalls, fines, and damage the Group's reputation. Product standards are often subject to interpretation and frequently change, typically becoming stricter. When appropriate, the Group supplements its existing governance structures with dedicated cross-divisional project teams to pro-actively mitigate risks associated with major regulatory challenges and/or legislative changes, with regular reporting to Group Management.

Servitization – Many industries are experiencing a shift in customer preference from buying of physical products to purchasing services (e.g., in the form of monthly fees, leases or uptime). This shift is sometimes referred to as "Servitization." The Group strives to keep pace with this shift by offering more "service" oriented solu-

tions such as rental and financing options. However, the Group still is heavily reliant on traditional business models of selling products to generate revenue and there is a risk that competitors may be able to develop service offerings more quickly or more effectively.

> *Future CO₂ emissions regulation* – The Group anticipates more stringent emissions regulations. The Group has increased its percentage of low-emission products with “robotics and battery-powered products” as one of four stated strategic priorities. Steps taken include a significant expansion of internal resources dedicated to robotics and battery products and a significant increase in related R&D spend. This focus reduces the Group’s vulnerability to stricter emissions legislation. An analysis was conducted in 2019 to better understand required CO₂ reductions from the Group’s product portfolio, using a 2035 horizon. This analysis confirmed that the Group is on the right path to transition to a low-carbon economy in line with the latest climate science to meet the goals of the Paris Agreement.

> *Shift from Petrol to Battery Products* – Many traditional market segments are affected by the “petrol-to-battery” shift, meaning that products historically powered by petrol engines are now being offered with battery driven motors instead. This trend has accelerated over recent years as batteries have become more powerful, more reliable and less expensive. Accordingly, it has been a strategic priority of the Group for many years to heavily invest in battery technology and new battery products. While the Group has, for the most part, achieved a leading position in battery products within relevant market segments there is increased competition in these segments by new entrants, e.g., power-hand tool players, many of which have significant scale in designing, manufacturing or sourcing battery-powered indoor products such as cordless drills, which can then be applied to outdoor products as well.

B. Sourcing:

Component supply and quality – A shortfall in deliveries or quality-related issues from a supplier may have negative consequences for production and for deliveries of finished products. This risk is exacerbated where the Group relies on a few (or even single) suppliers to deliver key materials or components. The Group’s purchasing organization works closely with suppliers in order to manage deliveries, and monitors the suppliers’ financial stability, quality-assurance systems and flexibility of production.

> *Electronic Components* – Electronic components, including batteries and related parts, are becoming increasingly common and important for the Group’s products and services. At the same time, worldwide demand for such components – especially battery cells – is increasing dramatically. As for all direct material supply, availability is dependent on suppliers and if they have supply interruptions or lack of capacity, it may have an adverse effect on the Group’s production and deliveries. To address these risks, the Group has begun to shift resources (including, e.g., site visits for risk evaluation) from its own production sites, which are often deemed highly-protected, to those of major suppliers.

Compliance Issues – A broad supplier base, especially in less developed countries, potentially increases the risk that products or components are not produced sustainably. The Group and its suppliers must share the same high standards for the environment, labor and human-rights as in Group policies and procedures and as stated in the Supplier Code of Conduct. The Group is mitigating these risks through an increased number of supplier audits.

Prices for raw materials and components – The Group’s operations and its performance are affected by fluctuations in the prices of raw materials and components. The most important raw materials are steel, aluminum and various types of plastic. These prices can fluctuate considerably in the course of a year, as a result of changes in world prices for raw materials or the ability of suppliers to deliver them. Total consumption is linked to production volume and production mix. The Group does not use financial instruments to hedge prices of raw materials, but endeavors to manage risks through bilateral agreements with suppliers.

In 2019, the Husqvarna Group purchased materials, components and finished products amounting to SEK 19,419m (19,194).

Cost structure, Group

	2019		2018	
	% of net sales	SEKm	% of net sales	SEKm
Cost of goods sold:				
Raw materials, components and finished products	45.9	19,419	46.7	19,194
Factory overhead, R&D, tools	14.5	6,121	14.5	5,983
Direct wages	3.7	1,561	4.0	1,631
Restructuring	0.3	117	2.6	1,077
Other	6.0	2,530	6.6	2,698
Total cost of goods sold	70.4	29,748	74.4	30,583
Gross operating income	29.6	12,529	25.6	10,502
Selling expense	16.4	6,928	15.6	6,425
Administrative expense	4.7	2,000	4.8	1,968
Restructuring	0.3	108	0.2	94
Other	-0.5	-197	0.0	-55
Operating margin/income	8.7	3,690	5.0	2,070

C. Manufacturing:

Footprint – The Group maintains a relatively large manufacturing base with corresponding fixed costs, and is subject to risks from fluctuations in demand resulting from economical, seasonal and weather variations, as well as the availability and applicable lead times of key components. Handheld products such as chainsaws and trimmers, for which the Group also manufactures engines, as well as watering products, feature a higher proportion of specialized components that are produced in-house. Any material decline in overall sales volumes can therefore have a significant negative impact on factory absorption and in turn the profitability.

> *Natural Disasters* – The Group’s and suppliers’ facilities are subject to disruption for a variety of reasons, including, but not limited to, work stoppages, water scarcity, fire, earthquake, flooding, or other natural disasters. Such disruption may interrupt Husqvarna Group’s ability to manufacture certain products. Any significant disruption could negatively impact the Group’s sales and earnings. The Group works proactively to reduce these exposures by avoiding operations in flood zones, proactive maintenance, installation of sprinklers and establishing business continuity plans.

Saw chain manufacturing ramp up – The Group continues to ramp up production capacity of its own saw chain facility, located in Huskvarna, Sweden. This is a significant industrial undertaking, and may require additional unplanned investments, or finetuning of manufacturing equipment parameters that could take longer than planned to achieve the desired volumes, quality and product cost.

Fluctuations in Staffing Demands – In light of seasonal variations in the Group’s operations, the number of temporary employees increases in preparation for the peak production season, and

decreases at the end of the production season. The production season for most lawn-care products is during the first and second quarters, whereas chainsaws and other handheld products have a production peak in the third quarter. The Husqvarna Group relies on temporary labor for seasonal production, which poses risks in terms of awareness of safety and production routines and availability of such temporary labor. Sick leave and issues related to wellness can also negatively impact the productivity of the Group.

D. Transportation:

Tariffs and Trade Disputes – Group operations involve the movement of products, components and raw materials across national boundaries. Such goods may be subject to import and export duties or similar tariffs. Normally, the costs of such tariffs are taken into account in product pricing. However, abrupt changes to – or unclarity regarding – such tariffs expose the Group to risks. In some cases, it may be difficult to pass on such higher product costs, or may take a significant period of time to do so. Likewise, competitors may have a different supply-chain structure, and be able to produce similar goods that are free from such tariffs. In either case, the Group may be forced to absorb such extra tariff costs, thereby lowering the gross margin on products sold. The risk for disruptive changes in the tariff landscape have been exacerbated by recent geopolitical factors, such as the decision by the United Kingdom to exit the European Union, as well as recent tariffs imposed by the United States against China and other countries, and associated risks of “trade wars”. Such trade wars could not only result in significant increases in Husqvarna Group’s overall tariff rates, with the associated consequences noted above, but could also have larger macro-economic effects on the overall global economy and the markets where the Group produces and sells products. Whenever and wherever possible the Group strives to adjust its supply chain and manufacturing footprint to minimize the impact from such tariffs.

>CO₂ impact of logistics suppliers – The Group relies on air, road, rail and ship transport, some of which are carbon intensive. The Group forsees higher costs and levies for fossil-fuel based transport, especially air freight. Increased local production in North America and Europe helps to reduce transport dependency.

E. Customer Interaction:

Customer Preferences – The Group’s strategy is based on product innovation, utilization of strong brands and global distribution to create differentiated product and solution offerings for the different end-customer segments. Long-term profitability depends on the ability to successfully develop, manufacture and market new products and solutions that meet customers’ performance needs and price requirements. Digitalization has opened up significant opportunities to improve customer interaction and to customize advice and support. The Group work with the major digital solution providers to ensure the products are integrated with digital platforms preferred by our customers.

Digitalization also increases the risk that traditional business models are disrupted by new market entrants, who may have new product (or service) offerings and/or more effective go-to-market strategies.

Retail Channel – Consumer products are sold mainly through large retail chains. This market is highly consolidated in North America and the UK, while in the rest of Europe, market consolidation is by and large still ongoing. The Group’s retail customers, such as large Do it Yourself (DIY) chains, are becoming larger and fewer in number, which gives them greater bargaining power. Several also source products that are then marketed under their

own brands. This provides Husqvarna Group with an opportunity to display its products in more retail outlets in a wider geographical area. However, it also entails risks. Most obviously, the failure to build or maintain strong supply relationships with DIY retailers can have significant negative effects on volumes and in turn profitability. Conversely, successfully maintaining such customer relationships can lead to a greater dependence on fewer customers, with higher levels of trade receivables and credit risks related to these customers. Moreover, any decline in the relative market success of a retailer with whom the Group has a strong relationship can have a disproportionately negative effect on the Group. The Group is taking a number of measures to reduce sales channels risks, including setting annual credit limits for customers.

Dealer channel – Professional products are sold mainly through local independent dealers or in some cases directly to end-customers, which means that these customers purchase smaller volumes and generally are not as significant for the Group on an individual basis. Cost to serve the dealers are relatively higher than that to retail accounts but the level of risk related to receivables and credit is lower.

Online – Internet commerce is increasing and becoming of increasing importance to the Group, partly as the result of increased online sales activities of trade partners in both the dealer and retail channel but also from growing direct sales with major online resellers. This brings new risks and uncertainties, including new buying patterns and challenges to ensuring adequate pre- and post-sales support for products sold online. The challenge is to ensure that relevant products are offered to all customer segments in all relevant purchasing channels. The failure to build or maintain strong supply relationships with key online resellers can have significant negative effects on volumes and profitability.

F. Customer Use:

Product Safety – The Group is exposed to product liability in the event that products are alleged to have caused damage to persons or property. The Group is insured to a large degree against such claims, partly through insurance in its own captive subsidiaries, and partly through external insurers. However, there is no guarantee that such insurance coverage is in force or sufficient in a specific case, or that claims regarding product liability may not have an adverse effect on the company’s earnings and financial position. In addition, such insurances do not cover the costs for warranty repair, recall exposure or any adverse effect on brand value. External insurance is subject to availability and pricing, which may vary over time. The Group has established a committee on product safety (COPS), the tasks of which include monitoring product safety issues.

>Weather/climate – Demand for the Group’s products is dependent on weather. Unexpected or unusual weather conditions in core markets can affect sales either adversely or positively. Dry weather can reduce demand for products such as lawn mowers and tractors, but can also stimulate demand for watering products. However, excessive dry weather or droughts may result in regulatory actions, such as water-bans, that have a negative effect on the sale of watering products. Demand for chainsaws normally increases after storms and during cold winters. Husqvarna Group strives for flexible production and supplier structure that can be adjusted at short notice to meet actual demand without the burden of excess safety stock within inventory. Reducing lead times and improving responsiveness heightens the Group’s agility and helps get the right products to the market by matching not only the season but current weather conditions.

G. End of Life/Product Recycling:

>Future regulation on product takeback – The Group participates in recycling schemes for electrical equipment and batteries in markets in North America and Europe. Regulation on recycling will likely expand to other markets, as the focus on waste and resource efficiency grows. Future regulation on product takeback may increase costs for premiums for disposal and product redesign for recyclability. With the circular economy as a growing imperative, the Group is exploring opportunities to contribute further by increasing use of recycled plastics in products and increasing recyclability of the products.

Other risk areas across the value chain

Risks related to information systems, personal data and cyber-crime

The Group heavily relies on its IT systems to operate its business. Disruptions or faults in critical IT systems may have a direct impact on operations such as production and logistics. Cyber security risks are increasing in society in general, especially due to cyber-criminals who can use a variety of means, ranging from sophisticated virus attacks to simple email fraud. Any of these criminal activities, if successful, could have an adverse impact on the Group's operations, financial condition or reputation. The Group works continuously to keep systems protected and in addition, is also investing in enhanced disaster recovery, confidential or data storage capabilities and cyber-security expertise as well as information security awareness and training. In parallel with such efforts and in connection with the EU's General Data Protection Regulation, the Group continuously works to protect individual's rights in connection with any personal data processed by the Group.

Integrity and compliance risks

In 2019, the Group's Chief Compliance Officer conducted a Global Risk Assessment which identified several potential compliance risks, including the following:

Anti-Corruption/Bribery – Husqvarna's Code of Conduct has a strict prohibition on corruption and bribery, and the Group's employees are trained on how to ensure that this does not happen. However, there is always a risk that third-parties (agents, distributors and suppliers) might engage in misconduct without the Group's knowledge. To combat this, the Group has recently adopted a Third-Party Due Diligence Policy, which requires a pro-actively confirmation of the good standing of certain categories of third-party vendors and partners before engaging in business with them. This policy also guards against other forms of non-compliance (e.g. labor policies, and trade compliance).

Competition Law/Anti-trust – Husqvarna is committed to continued and focused employee training on Competition law standards.

International Trade Compliance/Sanctions – A Group Export Controls and Trade Sanctions Policy has been adopted to further support the existing Trade Sanctions Process. An additional Sanctions review protocol will also be incorporated into the Third-Party Due Diligence program described above.

The Group maintains several reporting channels for concerns of misconduct, including an "AlertLine" managed by an independent third-party. All such reports are investigated and reported under the direction of the Group's Chief Compliance Officer. A comprehensive Code of Conduct, revised Group policies, guidelines and a strong corporate culture provide a foundation for a sound business environment. The Group also provides employee training on the Code of Conduct and related Policies both through online and live training courses.

Environmental, health, safety risks and human rights

>Risks related to human rights, health, safety and the environment can arise in the entire supply chain, both at suppliers and at the Group's production facilities. These risks can be followed by reputational impact for well-known brands owned by the Group. The Group applies the precautionary principle and takes action to prevent or mitigate injury or harm to human health or the environment.

Risks related to acquisitions, restructurings and organizational changes

The Group may undertake acquisitions, divestitures or organizational changes from time to time, all of which involve risks. For example, restructuring and organizational changes involve the risk of creating higher costs or lower revenues than anticipated and losing key personnel, or that estimated savings are below announced targets. In the case of acquisitions, sales may be adversely affected, the costs of integration may be higher than anticipated, and synergy effects may be lower than expected. In case of acquisitions or cessation of operations, environmental risk assessments are always conducted by qualified experts. The Group aims to mitigate these risks by, among other things, thorough pre-transaction due diligence as well as having clear post-transaction planning, whereby clear roles and responsibilities are established for post-closing hand-over and integration matters.

Certain risks in the Construction Division

The construction market is less weather sensitive than the forest and garden market. On the other hand, it is more subject to financial cycles and changes in the political environment. Such cyclicity can have a significant impact on the capital intense equipment and the rental channel overall, as exemplified by developments during the 2008–2009 financial crisis. However, the specific sub-markets addressed by the Construction Division tend to have smaller cyclical amplitudes than the overall construction industry. This is largely because of the high relative share of consumables (diamond tools) and the fact that the Division's products are often used in renovation projects, which are relatively more stable compared to new construction work.

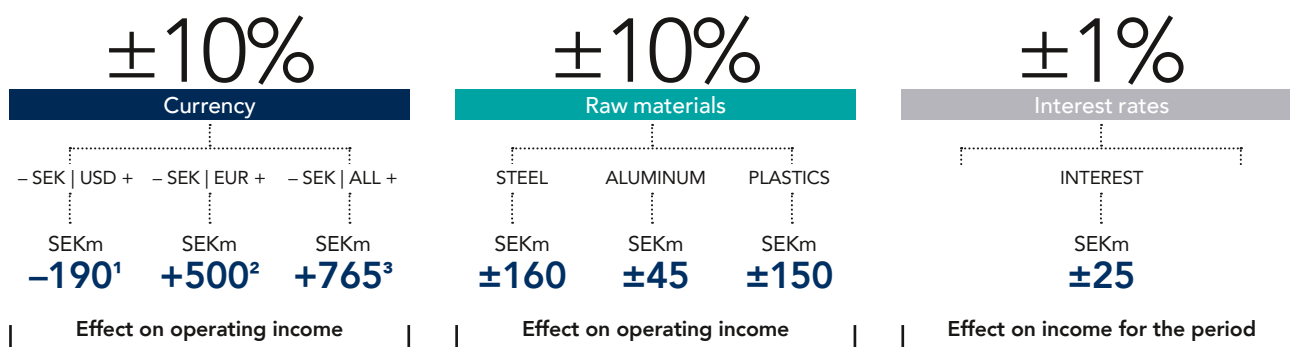
Financial risks

The following sections highlight financial risk areas that are relevant to Husqvarna Group.

General

The Group's financial risks are managed on the basis of the Group's financial and credit policies, which are annually updated and approved by the Board. Management of financial risks is based largely on the use of financial instruments and is mainly centralized in Group Treasury, which operates in accordance with specified risk mandates and limits. For more information on accounting principles and financial risk management and risk exposure, see notes 1 and 20.

Sensitivity analysis



¹ Excluding hedge effects. SEK –225m refer to effect of transactions and SEK 35m to translation effects.

² Excluding hedge effects. SEK 400m refer to effect of transactions and SEK 100m to translation effects.

³ Excluding hedge effects. SEK 590m refer to effect of transactions and SEK 175m to translation effects. All other refer to the other currencies including USD and EUR.

Financing risks

Financing risks refer to possible delays, increased costs or cancellations related to financing of the Group's capital requirements and refinancing of outstanding debt. Risks are reduced by maintaining an evenly distributed maturity profile of loans, access to credit facilities and ensuring that short-term borrowings do not exceed current liquidity.

Interest rate risk

Interest rate risk refers to the adverse effects of changes in market interest rates on the Group's net income. The main factor determining this risk is the interest fixing period. The interest rate risk is managed by changing the interest from fixed to floating or vice versa by using derivatives such as interest rate swaps.

Foreign exchange risk

As Husqvarna Group sells its products in more than 100 countries, has production in approximately 10 countries and likewise sources raw materials and components from various countries across the globe, the Group is exposed to exchange rate fluctuations. These fluctuations affect the Group's earnings in terms of translation of income statements in foreign subsidiaries, i.e. translation exposure, as well as in the sale of products on the export market and purchases of materials in foreign currencies, i.e. transaction exposure, and also in terms of the translation of balance sheet items such as trade receivables and trade payables.

Changes in exchange rates also affect Group equity. Assets and liabilities of foreign subsidiaries are affected by changes in exchange rates, generating translation differences that impact equity. In order to limit negative effects on Group results and equity resulting from transaction exposure and translation differences, part of the Group's transaction exposure and net investments in foreign operations is hedged using foreign exchange derivatives.

Credit risks

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risks are managed on the basis of standardized credit ratings, credit limits, active monitoring of credits and routines for follow-up of trade receivables. The need for reserves for doubtful trade receivables is monitored continuously. Major credit limits are approved annually by the Board. The Group also utilizes credit insurance to reduce credit risk in trade receivables.

The Group's financial assets are used primarily for the repayment of loans. Liquid funds are placed in highly liquid interest-bearing instruments issued by institutions with a credit rating of at least A–, according to Standard & Poor's or similar agencies.

Tax risks

The Husqvarna Group operates in many countries and undertakes a great number of cross-border transactions. The operations are subject to complex national and international tax rules that change over time.

The Husqvarna Group, like many multinational companies, employs a centralized transfer pricing model based on the Group's operating model with central Group functions and global divisions. The Group is seeing a change in the regulatory environment in which there is a higher risk that Taxing authorities may challenge such models, which could result in an increase in tax exposure both historically and going forward.

Restrictions on tax deductibility of interest expenses on intra-group loans apply in Sweden. Interest is only deductible provided that the interest beneficiary is resident within the EES, or within a country with which Sweden has concluded a tax treaty, or the beneficiary is taxed at an income tax rate of at least 10%. However, if the debt is entirely, or almost entirely, created with the purpose to obtain a substantial tax benefit the deduction is denied. At the moment it is not clear how these exceptions will apply. For this reason, Husqvarna Group has made provisions to reflect potential exposure related to these restrictions.

Pension commitments

Husqvarna Group's commitment for pensions and other post-employment benefits amounted to SEK 2,427m (1,943) at year-end 2019. The Group manages pension funds amounting to SEK 3,013m (2,543). At year-end 2019, 39% (37) of these funds were placed in shares, 52% (51) in interest-bearing securities and 9% (12) in other investments.

Changes in value of the assets and liabilities depend primarily on trends for share prices and interest rates. Factors affecting the pension obligation include changes in the assumptions, such as discount rate, life expectancy and expected salary increases. In the interest of effective control and cost-efficient management of the Group's pension assets, management is centralized in Group Treasury and conducted in accordance with the pension fund policy adopted by the Board. For more information on pension commitments, see note 21.

Corporate Governance Report

As required by the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance (the "Swedish Code"), this Corporate Governance Report describes the organizational bodies, rules, and other governance structures by which Husqvarna Group is controlled and operated. The Group's external auditors have reviewed this report and their opinion has been included in the Auditor's Report.

Good corporate governance is a fundamental prerequisite not only to meet our obligations as a public company, but also to create value for shareholders in an efficient, responsible and sustainable manner. The Husqvarna Group's corporate governance structures are defined in part by external laws (e.g., the Swedish Companies Act), in part by self-regulatory standards (e.g., the Swedish Code and the Nasdaq Stockholm Rulebook for Issuers) and in part by internal rules (e.g., the Company's Articles of Association, Code of Conduct, and Group policies). While not mandatory, Husqvarna Group has elected to comply with all aspects of the Swedish Code, without exception.

Husqvarna has no deviations from the Swedish Code to report for the 2019 financial year. Nor has Husqvarna been subject to any rulings by Nasdaq Stockholm's Disciplinary Committee or decisions on breaches of sound practices in the stock market by the Swedish Securities Council. For more information, go to: husqvarnagroup.com/en/corporate-governance/.

The highest corporate decision-making body in the Company is the Shareholders' General Meeting, which is normally held once per year in the form of the Annual General Meeting ("AGM"), but can also be in the form of an Extraordinary General Meeting under certain circumstances. The 2020 AGM will take place at 4 p.m. on Thursday, April 2, 2020 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden. The Company prepares the AGM agenda with input from its shareholders, who have the right to propose matters for consideration at the AGM.

Shareholders

Husqvarna AB's shares have been traded on Nasdaq Stockholm since June 2006. At year-end 2019, the share capital amounted to SEK 1,153m, represented by 112,015,629 A-shares and 464,328,149 B-shares, each with a par value of SEK 2. A-shares carry one vote and B-shares carry one tenth of a vote. As per the Articles of Association, holders of A-shares are entitled to request conversion of A-shares into B-shares on a 1:1 basis. During 2019, 421,922 A-shares were converted to an equivalent number of B-shares.

As of December 31, 2019, the number of shareholders was 63,897, whereof foreign shareholders held approximately 29.7% of the outstanding share capital. Investor AB was the single largest shareholder with a holding of 16.8% of the share capital and 33.1% of the votes. L E Lundbergföretagen was the second largest shareholder with a holding of 7.6% of the capital and 25.1% of the votes. For further information on the Husqvarna AB shares and shareholders, see section "The share".

Nomination Committee

In accordance with the Swedish Code, Husqvarna AB is required to have a Nomination Committee, the primary responsibilities of which are to consider and submit to the AGM proposals and recommendations regarding:

- The Chair of the AGM;
- The number of Board members;
- The nominees for election to the Board;
- The Chair of the Board;
- Remuneration to Board members, including the Chair, and remuneration for Board members' work on Board committees;
- Selection of external auditors (when applicable);
- Remuneration to external auditors; and
- Changes to the process regarding the composition and tasks of the Nomination Committee (if applicable).

The AGM determines the process for establishing the Nomination Committee and its members. At Husqvarna AB's 2013 AGM it was decided that the following process would apply until a subsequent AGM resolves otherwise:

- The Company shall have a Nomination Committee consisting of five members.
- The members shall consist of one representative of each of the four largest shareholders in the Company in terms of voting rights held as of the last banking day of August, with the fifth member being the Chair of the Board.
- In the event that any of the four largest shareholders elect not to nominate a representative to the Nomination Committee, the right to appoint such a representative passes to the fifth largest shareholder and so on.
- The Company's Board Secretary shall serve as secretary of the Nomination Committee.

These rules established at the 2013 AGM have not been changed by any subsequent AGM and therefore continue to apply.

The formation of the Nomination Committee for the 2020 AGM was announced on September 11, 2019. The members of the Nomination Committee (and corresponding appointing shareholders) for the 2020 AGM are:

Member	Appointing shareholder
Petra Hedengran (Chair)	Investor AB
Claes Boustedt	L E Lundbergföretagen AB
Ricard Wennerklint	If Skadeförsäkring AB
Henrik Didner	Didner & Gerge Fonder AB
Tom Johnstone ¹	—

¹ Board Chair of Husqvarna AB

The determination of the four largest shareholders for purposes of nominating representatives to the Nomination Committee was based on known holdings of voting rights as of August 30, 2019. Nomination Committee members do not receive compensation from Husqvarna AB for their work on the Nomination Committee.

As noted above, one of the chief duties of the Nomination Committee is to make recommendations regarding the size and composition of the Board. Normally, the starting point for such recommendations is a survey conducted each year by the Chair of the Board to assess the Board's work, composition, qualifications, experience and efficiency. The results of this survey are shared and discussed with the Nomination Committee.

Based on survey results and, if deemed appropriate, subsequent discussions and interviews, the Nomination Committee determines whether the existing Board should be strengthened with additional expertise or if there are any other reasons to make changes to the composition of the Board. In making such determinations and (if applicable) evaluating potential new candidates for the Board, the Nomination Committee takes into consideration the objective to achieve a gender balance in the Board.

The Nomination Committee has applied rule 4.1 of the Swedish Code as its diversity policy. In addition, the Nomination Committee takes into consideration the need to ensure that the independence requirements of the Swedish Code are met. These requirements stipulate that at least the majority of Board members must be independent from the Company's management, and that at least two (from such majority) are also independent of the Company's largest shareholders. The Nomination Committee also takes into account any proposals made to the Nomination Committee about the composition of the Board that may have been suggested by other shareholders. Shareholders who wish to submit proposals to the Nomination Committee may do so by sending an email to nominationcommittee@husqvarnagroup.com. While there is no formal cut-off date for proposals, it was recommended in the September 11, 2019 notice of the formation of the Nomination Committee that such proposals from shareholders be received by the Company no later than February 6, 2020.

For the 2020 AGM, the Nomination Committee announced its required proposals along with the notice of the AGM, which was published on the Company's website on February 28, 2020. The Nomination Committee will present and explain its work and proposals at the AGM.

The Annual General Meeting

General

The AGM is the highest decision-making body of the Company. In accordance with the Swedish Companies Act, the AGM of Husqvarna AB must be convened annually on a date not later than six months after the close of the preceding financial year, and is normally held in March or April.

According to Husqvarna AB's Articles of Association, the AGM must be held in Jönköping or Stockholm, Sweden, although it has traditionally been held in Jönköping. The notice of the AGM (specifying its date, location, agenda, etc.) shall be made public at least four weeks and not more than six weeks prior to the AGM. The notice is published in the Swedish daily newspaper, Svenska Dagbladet and the Swedish Official Gazette (Post- och Inrikes Tidningar). It is also announced in a press release and on the Company's website at www.husqvarnagroup.com. For the 2020 AGM, the notice was published by press release on February 28, 2020 and in Svenska Dagbladet and the Swedish Official Gazette (Post- och Inrikes Tidningar) on March 3, 2020.

Shareholders who are listed in the share registry on the record day (i.e., Friday, March 27, 2020) and wish to be represented at the AGM must register to do so with the Company by no later than Friday, March 27, 2020. Shareholders who are individuals may attend the AGM in person or by proxy. Shareholders attending the meeting by proxy, including all corporate shareholders, must submit a valid power of attorney as well as other required documentation in due time before the AGM. This, together with information provided by Euroclear Sweden AB, allows the Company to compile a book of shareholders eligible to vote at the AGM. Following this compilation, voting certificates are sent to all shareholders attending the meeting or their designated representatives. Voting certificates are proof of voting rights and also serve as an entrance card to the AGM.

AGM agenda items & written documentation

The agenda for the AGM is reviewed and approved by the Board and consists of matters that are statutorily required, as well as other matters.

Matters typically include:

- Election of Chair of the AGM¹;
- Adoption of statutory financial documentation;
- Discharge of liability for the Board members and CEO;
- Disposition of the Company's profit;
- Number of elected Board members¹;
- Remuneration to Board members, committee members and external auditors¹;
- Election of external auditor¹;
- Election of Chair of the Board¹;
- Election of Board members¹;
- Principles of remuneration for Group Management;
- Adoption of long-term incentive programs (if applicable);
- Repurchase and transfer of the Company's own shares (if applicable);
- Authorization to resolve on the issuance of new shares (if applicable); and
- Such other matters as may be deemed necessary and appropriate by the Board.

¹ Indicates agenda items for which the Nomination Committee makes a proposal.

Shareholders may also, prior to the publication of the notice to attend the AGM, propose matters to be put on the AGM agenda.

At the AGM, the Chair of the Board presents a report on the Board's work during the preceding year, the CEO gives an overview of the Company's business and current priorities, and the auditors present their report and review of the Company's finances. If required, the Chair of the People & Sustainability Committee (formerly the "Remuneration Committee")² reports on remuneration to Group's executive management (herein, "Group Management") and, if it is to be decided by the AGM, the Company's long-term incentive programs. Shareholders may also direct questions to the Chair of the Board, the CEO, the Nomination Committee, the Chair of the People & Sustainability Committee, the external auditors or any other Board member. Written documentation is presented at the AGM, normally both in English and Swedish. This documentation may be downloaded from the Company's website and is also sent to shareholders upon request.

² This Committee is intended to be a "remuneration committee", within the meaning of Section 9 of the Swedish Code, see also "People & Sustainability Committee", on page 58.

Such documentation includes:

- The agenda for the AGM;
- Proposals from the Board and the Nomination Committee;
- The Board's report on the People & Sustainability Committee's evaluation of programs of variable remuneration for Group Management, the application of the principles of remuneration for Group Management and applicable remuneration structures and levels in the Company;
- The Nomination Committee's explanatory statement regarding the proposal for appointment of Board members; and
- The Board's report in relation to the proposed dividend and the proposal on the acquisition of the Company's own shares (if applicable).

The AGM is held in Swedish, but simultaneous translation into English is available. The minutes recorded at the AGM are normally published within a few days of the AGM. A press release including the decisions made by the AGM is published immediately after the AGM.

The 2019 AGM

The 2019 AGM was held on April 9, 2019 in Jönköping, Sweden with 736 shareholders attending in person or by proxy, representing 58% of the total number of shares and 78% of the total number of votes. Also attending were the Board, the external auditors and members of Group Management. The AGM approved the following resolutions:

- To adopt the income statements and balance sheets for 2018.
- To declare a dividend of SEK 2.25 per share in total, to be paid in two separate payments of SEK 0.75 per share to be paid on April 16, 2019, and SEK 1.50 per share to be paid on October 16, 2019.
- To discharge the Board and the CEO from liability for the financial year 2018.
- To establish the size of the Board at eight (8) elected members (including the CEO).
- To elect Tom Johnstone, Ulla Litzén, Katarina Martinson, Bertrand Neuschwander, Daniel Nodhäll, Lars Pettersson, Christine Robins and Kai Wörn as Directors of the Board.
- To appoint Tom Johnstone as Chair of the Board.
- To set Board remuneration at SEK 6,290t in total, of which SEK 2,000t to the Chair of the Board and SEK 580t to each of the Board members elected by the AGM and not employed by the Company. Furthermore, to pay additional remuneration of SEK 240t to the Chair of the Audit Committee and SEK 135t to each of the other two members of the Audit Committee, as well as SEK 140t to the Chair of the People & Sustainability Committee and SEK 80t to each of the other two members.
- To approve the Nomination Committee's proposal of election of auditors and to pay auditor's fees on the basis of approved invoices.
- To set principles of remuneration to Husqvarna Group Management, based on fixed salary, variable salary, long-term incentives, pensions and other benefits.
- To establish a performance-based long-term incentive program for 2019, LTI 2019, to be offered to 100 senior managers, whereby, subject to the fulfilment of certain performance targets and other conditions during a three-year vesting period, the participants would have the right to receive certain B-shares.
- To authorize the Board, during the period up until the next AGM, to direct the Company to enter one or more equity swap agreements with a third party (e.g., a bank) for purposes of hedging the obligations of the Company, under the LTI 2019

and any previously resolved programs.

- To authorize the Board to approve the issue of not more than 57,634,377 new B-shares against payment in kind on one or more occasions during the period up to the 2020 AGM.

The 2020 AGM

The 2020 AGM of Husqvarna AB will be held at 4 p.m. on Thursday, April 2, 2020 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden. For more information regarding the 2020 AGM, see section "Annual General Meeting 2020".

The Board of Directors

According to Husqvarna AB's Articles of Association, the Board shall be comprised of no less than five and no more than ten Board members. The Articles of Association do not contain any specific provisions concerning the appointment and dismissal of directors (or the method by which the Articles of Association themselves may be amended), meaning that the rules otherwise stated in the Swedish Companies Act apply. There are currently eight Board members elected by the AGM (see section "Board of Directors and auditors"). In addition to the Board members elected by the AGM, Swedish trade unions have the statutory right to appoint two ordinary Board members with voting rights, as well as two non-voting deputies.

In accordance with the Swedish Code, the principle tasks of the Board include:

- Establishing the overall goals and strategy of the Company;
- Appointing, evaluating and, if necessary, dismissing the CEO;
- Defining appropriate guidelines to govern the Company's conduct in society, with the aim of ensuring its long-term value creation capability;
- Ensuring that there is an appropriate system for follow-up and control of the Company's operations and the risks to the Company that are associated with its operations;
- Ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and other regulations relevant to the Company's operations, as well as the application of internal guidelines; and
- Ensuring that the Company's external communications are characterized by openness and that they are accurate, reliable and relevant.

The Board has adopted Rules of Procedure for its internal activities, which include rules regarding the number of Board meetings, matters to be handled at regular Board meetings and the duties of the Chair of the Board. These Rules of Procedure are updated and adopted by the Board each year at the "Statutory Board Meeting" which is normally held immediately after the AGM. The Chair shall also ensure that the Board evaluates the CEO on a regular basis, at least once a year.

The Board has also issued written instructions specifying when and how information required to enable the Board to evaluate the Company and the Group's financial position shall be reported to the Board, as well as the distribution of duties between the Board and the CEO. The Board has established an Audit Committee and a People & Sustainability Committee, which discharge certain monitoring and oversight responsibilities on behalf of the Board, as more fully described below.

The Chair of the Board ensures that the Board's work and procedures are evaluated and discussed with Board members annually, and are brought to the attention of the Nomination Committee with the aim of developing the Board's working methods and efficiency. In 2019, such evaluation was conducted principally through a combination of individual interviews and a detailed

Board questionnaire. The results of such evaluation were presented to, and discussed with, the Nomination Committee as well as to the full Board. The Board members elected by the 2019 AGM fulfil the independence criteria set out by the Swedish Code, which requires that a majority be independent of the Company's management, and that at least two of those be independent as to the Company's largest shareholders.

Fees to Board Members

Fees to Board members, including fees for committee work, are set by the shareholders at the AGM. For information on fees to the Board in 2019, see note 4.

Board Meetings

According to the Board's Rules of Procedure, the Board shall hold at least four ordinary meetings and one statutory meeting per calendar year. In 2019, the Board held ten meetings, of which three were by telephone, three were held in Stockholm, Sweden, two were held in Huskvarna, Sweden, one was per capsulam (i.e., by unanimous written consent) and one was held in Aycliffe, UK.

At Board meetings, the Company's CFO and General Counsel are also present. The General Counsel serves as the Board's secretary and records the minutes of the Board meetings. Other members of Group Management or other senior managers of the Company may also be asked to attend and report on significant matters.

When relevant and at least quarterly, Group Management presents forecasts and key performance indicators, providing the Board with an overview of the financial development and expectations of the Company. The Company's budget is reviewed and approved once a year, generally in the fall. The Board also reviews the Company's significant litigation matters, follows up on the Company's compliance and risk management work, and monitors the Company's progress regarding its sustainability agenda. The Board maintains an active oversight role in the Group's Enterprise Risk Management program, as more fully described in the "Risk Management" section of this Annual Report. In addition, the Company's external auditors meet with the Board once a year, without participation of any member of Group Management.

The Audit Committee

In accordance with the Swedish Companies Act, the Board annually appoints an Audit Committee whose primary responsibilities are to (a) monitor the Company's financial reporting, (b) oversee the effectiveness of the Company's internal control, internal audit function and risk management as they relate to financial reporting, (c) review and supervise the Company's external auditors' impartiality and independence, and (d) when applicable, assist in the preparation of proposals for the AGM's election of auditors. The Audit Committee may also exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time. The Board has adopted a charter for the Audit Committee, which is periodically updated and approved by the Board.

The Board determines the composition of the Audit Committee, which shall have at least two members, none of whom may be employed by the Company. At least one of the members of the Audit Committee must have auditing or accounting competence. The Board appoints the Committee members annually at the Statutory Board Meeting or when a Committee member needs to be replaced.

The Audit Committee members appointed in April 2019 were Ulla Litzén (Chair), Daniel Nodhäll and Katarina Martinson, who were the same members as the previous year. Audit Committee meetings are also attended by the Company's internal auditor, by

the General Counsel, who keeps the minutes of the meetings, the Company's CFO, and the external auditors. Other members of Group Management are present to report on matters as relevant. The Audit Committee regularly reports on its findings and recommendations to the full Board. Minutes of all Audit Committee meetings are also distributed to the full Board.

In 2019, the Audit Committee held seven meetings, which fulfil its own charter rule that it shall meet at least four times per year. The Audit Committee meetings follow an adopted agenda plan, which includes a review of open issues, a treasury and tax update, and an internal audit update. The Audit Committee also reviews the Company's Interim Reports and Boards' Report before they are submitted to the Board. The Committee meets frequently with the Company's external auditors who deliver reports on the audit. It also reviews the Company's compliance work and litigation activities quarterly.

The People & Sustainability Committee (formerly the Remuneration Committee)

The responsibilities of the Committee are to oversee:

- A. management remuneration and talent management, and
- B. the Company's Sustainability efforts.

This Committee is intended to be and act as the Company's "remuneration committee", within the meaning of the Swedish Code. The Committee shall consist of as many members as the Board shall determine, but in no event less than three members. The Board shall appoint the Committee members annually, at the Statutory Board Meeting, or when a Committee member needs to be replaced. Each Committee member shall satisfy applicable independence and other requirements of law and other regulations applicable to the Company from time to time. The Board shall appoint the Committee's Chair. The Committee's Secretary shall be the Company's Senior Vice President People & Organization.

The Committee's Chair, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that, the Committee shall meet at least twice per calendar year. The Committee may, at its discretion, include in its meetings members of the Company's management (normally the CEO), the Company's external or internal auditors, any other personnel employed or retained by the Company or any other person whose presence the Committee believes to be necessary or appropriate. Notwithstanding the foregoing, the CEO or any other member of Group Management may not be present during voting or deliberations concerning his or her compensation or assessment. The Committee shall report to the entire Board of the Company after each of its meetings and as otherwise requested by the Chair of the Board and shall make available to the Board the minutes of its meetings by the Secretary.

With respect to Management Compensation & Talent Management, the Committee is assigned to perform the following general tasks:

- to prepare the Board's decisions on principles for remuneration and other terms of employment for the CEO and for other members of Group Management, including such Remuneration Guidelines and Remuneration Reports, as are required by applicable law (including the EU's Shareholders Rights Directive);
- to monitor and evaluate programs for variable remuneration, both ongoing and those that have ended during the year, for Group Management;
- to monitor and evaluate the application of the principles for remuneration that the AGM is legally obliged to establish, as well as the current remuneration structures and levels in the Company; and
- to evaluate future talents for Group Management positions and monitor succession planning.

With respect to Sustainability, the Committee is assigned to perform the following general tasks:

- To periodically review the Group's overall efforts within the field of Sustainability, including without limitation, approving (or recommending to the full Board for approval) any Sustainability related targets or changes to existing targets.
- To actively track progress towards the Group's previously established Sustainability targets.
- To review and comment on the Group's annual "Sustainovate Progress Report", prior to submission to the full Board for approval.
- To otherwise monitor the Group's overall Sustainability work, including a review of any material information in the press that may reflect either positively or negatively on the public perception of the Group's commitment to sustainability.

The above tasks shall be supported by the Group's Head of Sustainability (currently within Operations Development), who

shall normally report to the Committee (or the full Board) at least twice per year. The Committee members appointed in April 2019 were Lars Pettersson (Chair), Tom Johnstone and Bertrand Neuschwander. For more information on remuneration to Group Management, see note 4.

In 2019, the Committee held three meetings, which fulfils the charter criteria that it shall meet at least twice a year.

External Auditors

At the 2019 AGM, in accordance with the proposal of the Nomination Committee, Ernst & Young AB was elected as auditor for the period from the 2019 AGM up until the end of the 2020 AGM. The auditor-in-charge is Hamish Mabon.

As per the decision taken at the 2019 AGM, the auditor's fee until the 2020 AGM shall be paid on the basis of approved invoices. For more information, see note 8.

Group Management Structure



Group Management & Divisional Structure

Husqvarna Group has a brand-driven organizational structure, with three separate reporting divisions: The Husqvarna Division, the Gardena Division, and the Construction Division. Group Management is now a 10 member team comprised of (a) the CEO, (b) the three divisional presidents, and (c) the heads of seven Group Functions, in each case, as shown above (two of which functions are currently headed by the same individual).

Group Management, together, makes decisions on:

- the Group's strategic and business development,
- allocations of responsibilities as between the Group functions and the respective divisions,
- enhancing Group synergies,
- internal financial and business follow-up,
- external financial reporting for Board approval,
- Group governance,
- Group staffing plans,
- issue resolution,
- budgets,

- external affairs,
- Board reporting,
- progress on Sustainability efforts,
- risk management and mitigation (see "Risk Management" section of this Annual Report), and
- Group policies and guidelines.

Group Management meets in person on a quarterly basis, with a telephone meeting in each month in which there is no physical meeting.

Clear roles and responsibilities apply for each of the Group functions as well as for the divisions. A Group governance structure has been implemented to ensure that decisions are made as close to operations as possible. Clear guidance has been provided to identify the level on which different types of decisions should be made. Changes to the governance structure (including applicable roles and responsibilities) can only be made by the decision of Group Management.

The CEO

The CEO is appointed by the Board and is responsible for the ongoing management of the Company in accordance with the Board's guidelines and instructions. These instructions include responsibility for financial reporting, preparation of information for decisions and ensuring that commitments, agreements and other legal documents are in compliance with applicable laws and the Group Code of Conduct. The CEO also ensures compliance with the goals, policies and strategic plans approved by the Board, and updates the Board on the same when necessary. The CEO appoints all members of Group Management, with input from the Board Chair.

The Divisional Presidents

Each of the three divisions has its own President, who in turn reports to the Group CEO. Each of such division Presidents is responsible for the income statement and balance sheet for his/her respective division. However, all decisions made by a division are subject to the Group's overall strategic goals and policies. For more information about Husqvarna Group's divisions, please see section "Divisions".

The Group Function Heads

Group Management includes the heads of the seven "Group Functions" as described below. These functions are designed to support the divisions with forward-looking initiatives and/or to continue to capture certain Group synergies where appropriate following the recent shift to increased divisional autonomy.

- 1. Innovation and Technology.** This function, which is headed by Anders Johanson, is leading the Group's Innovation Strategy, with focus on the future of Robotics and Data Driven Services. This function scouts new opportunities and innovates early concepts in close cooperation with the start-up community and leading academic centers. It also drives applied research in selected digital areas with leading universities. The function's organization is comprised of three sub-groups focusing on (a) Accelerated Innovation and Venturing, (b) Applied Digital Innovation, and (c) Technology and IP Intelligence, respectively. It also houses the Group's Artificial Intelligence Lab.
- 2. Business Development.** This function, which is headed by Per Ericson, is primarily responsible for leading the work on the Group's long-term strategy, as well as M&A activities. The function's organization is comprised of five sub-groups focusing on (a) Business Intelligence, (b) Strategy Planning & Projects, (c) Mergers & Acquisitions, (d) Venture Capital investments, and (e) Licensing, respectively.
- 3. Operations Development.** This function, which is headed by Pavel Hajman, is primarily responsible for securing Group wide synergies where appropriate, accelerating certain key priority areas, and securing business assurance. The function's organization includes sub-groups focusing on (a) Business Assurance (Sustainability, EHS, Product Compliance and Quality), (b) Digital Commerce acceleration and Customer Experience, (c) Robotics & Battery Acceleration, and (d) a Program Office, which includes Sourcing coordination, Efficiency programs and Change management.
- 4. Global Information Services (IT).** This function, which is also headed by Pavel Hajman, is primarily responsible for overseeing the Group's IT strategy, systems & infrastructure and operational support. It provides IT services and solutions including IT security, and also supports and collaborates with the IT personnel housed within the divisions. The function's organization is comprised of three delivery focused groups, aligned to the

three divisions, and three governing groups, each with a designated focus area, in Enterprise Architecture, Infrastructure & Security and Common Systems & PMO, respectively.

- 5. Finance, IR & Communication.** This function, which is headed by the Group's CFO, Glen Instone, has primary responsibility for the Group's financial controlling and reporting. It also coordinates and collaborates with finance personnel housed within the divisions. The function's organization is comprised of a number of sub-groups including (a) Treasury, (b) Internal Control, (c) Tax, (d) Business Control, (e) Group Accounting, (f) Internal Audit and (g) Real Estate. It also houses the Group's Investor Relations and Communication (internal and external) function.
- 6. Legal Affairs.** This function, which is headed by the Group's General Counsel, Brian Belanger, is responsible for providing all relevant legal support to the Group and the divisions. It also houses the Group's Risk Management function, the Data Privacy Office, and the Compliance & Integrity function. In order to secure independence, all members of the Legal Affairs team, including those sitting with the divisions, report to the Group's General Counsel.
- 7. People & Organization (HR).** This function, which is headed by Leigh Dagberg, has primary responsibility for overseeing the Group's HR initiatives, including the recruitment, advancement and retention of personnel. It also takes the lead on the Group's compensation & benefits and talent management, and coordinates on a dotted-line basis with HR personnel located within the divisions.

Note regarding Governance of Climate-Related Risks (TCFD)

Please refer to the "Risk Management" section of this Annual Report, for a description of (a) the Board's oversight of climate-related risks and opportunities, and (b) Group Management role in assessing and managing risks and opportunities, as contemplated by the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

External information

Husqvarna Group employs a series of procedures, controls, and systems to ensure the Group is able to provide the market with timely and accurate information, to the extent required by applicable law and good corporate practice, including the disclosure requirements of the EU's Market Abuse Regulation (MAR) and Nasdaq Stockholm's Rule Book for Issuers. The Board has delegated to the CEO, and an internal disclosure committee, comprised of the Group's CFO, General Counsel and head of Business Development, the day-to-day responsibility for assessing whether insider information exists (within the meaning of the MAR), and for ensuring that such information is promptly disclosed or, in exceptional circumstances, to delay such disclosure where necessary to protect the interests of the Company, and permitted by applicable law.

Financial information is regularly issued in the form of:

- Interim reports, published as press releases;
- Annual Reports;
- Press releases concerning news and important issues;
- Presentations and telephone conferences for financial analysts, investors and media on the day of publication of the interim and year-end reports, and in connection with the publication of other important information; and
- Presentations for financial analysts and investors in connection with capital market days and road shows, etc.

All reports, presentations and press releases are published on the Group's website at www.husqvarnagroup.com.

Internal Control over Financial Reporting

The Board is responsible for the Company's internal controls according to the Swedish Companies Act, Swedish Annual Accounts Act and the Swedish Code. The purpose of this report is to provide shareholders and other interested parties with an understanding of how internal control is organized within Husqvarna Group. It is limited to internal control over financial reporting.

This description of the Group's internal control activities is based on the COSO framework (The Committee of Sponsoring Organizations of the Treadway Commission). The COSO framework comprises five key components that jointly facilitate achieving the objective of reliable financial reporting.

Control environment

The foundation to establish good internal control is a framework of governing documents such as policies, instructions, guidelines and manuals that are embedded in the organizations vision and strategy. The Husqvarna Group Code of Conduct sets the importance of integrity and ethical values governing interactions with employees, business partners and other stakeholders. The Group's governance policies provide the framework that defines the organizational structure, responsibilities and authorities. The Board is ultimately responsible for establishing an effective internal control system, including that the Company has procedures to ensure that (i) approved policies for financial reporting and internal controls are applied, (ii) the Company's financial reports are produced in accordance with applicable legislation, accounting standards and other requirements for listed companies, and (iii) there is an appropriate system for follow-up and control of the Company's financial reporting. The Board has established Rules of Procedure and clear instructions for its work, which also cover the activities of the Audit Committee. The overall duty of the Audit Committee is to support the Board's supervision of the audit and reporting processes, and to ensure the quality of such processes. The activities of the Audit Committee during the year are described on page 58.

Responsibility for maintaining an effective control environment as well as the ongoing work on risk management and internal control over financial reporting is delegated to the CEO by the Board. This responsibility, in turn, is further delegated to managers within their specific areas at various levels in the Company. Responsibility and authority are defined in instructions to the CEO, regarding the right to sign for the Company, as well as within various internal policies, instructions and guidelines.

Risk assessment

Risks relating to financial reporting are evaluated and monitored by the Board through the Audit Committee. A risk assessment is performed by management once a year and presented to the Audit Committee covering profit and loss and balance sheet items in the financial reporting and related areas and processes. The purpose of the risk assessment is to identify, which risks could result in a material misstatement in financial reporting, and to direct internal control activities to manage those risks in a proactive manner.

Control activities

Control activities are integrated in processes for accounting and financial reporting. The prerequisite to ensure reliable financial reporting from all entities are uniform accounting principles which are stipulated in the Husqvarna Accounting Manual. For key financial processes, the Group has established Minimum Internal

Control Requirements (MICR) for its reporting units to enhance Husqvarna's internal control environment. Husqvarna Group has a dedicated internal control function. The objective of Group Internal Control is to provide support for Group Management and the management of the divisions, enabling them to continuously improve internal control relating to financial reporting.

Information and communication

The Husqvarna Group has a central document management system, which contains the governing documents, and is open to all employees. The governing documents relating to financial reporting such as the Husqvarna Accounting Manual are subject to regular reviews and updates. Changes in accounting procedures are communicated and explained in newsletters from the Group's accounting function. Furthermore, to ensure the correct implementation of such changes, the Group has established internal forums with participation from key stakeholders in the area of financial reporting.

Monitoring activities

Ongoing responsibility for monitoring and follow-up of financial reporting is performed by the Group Finance function. Country Officers are appointed by the Husqvarna Group in each country where the Group has at least one active subsidiary. The duties of such Country Officers include safeguarding the interests of shareholders as well as to ensure compliance with laws and regulations. Country Officers' responsibilities also include ensuring that the entities' internal controls and financial reporting comply with Group policies, instructions and guidelines.

Group Management performs monthly reviews of the results for the Group and the divisions, as well as updated forecasts, strategic plans and ongoing business activities. Identified internal control deficiencies are communicated in a timely manner to operational management responsible for taking corrective action, and to the Board, as appropriate. Considerations made in the quarterly closings are reported to the Audit Committee before the financial reports are presented to the financial market.

The Group Internal Audit function supports the development and improvement of internal control over financial reporting. Group Internal Audit was established by the Audit Committee as part of their monitoring role and as such the function has a solid reporting line to the Audit Committee. An annual internal audit plan based on an independent risk assessment is approved by the Audit Committee. Based on this audit plan, Group Internal Audit performs independent and objective audits to evaluate and improve the effectiveness of Husqvarna Group's governance, risk management and internal control processes. The results of these audits are presented to the respective stakeholders including the Group CFO, the CEO, and the Audit Committee. The findings of the internal audits are reported to the Audit Committee together with the status of the progress to improve the internal control activities.

Board of Directors and auditors



Name Tom Johnstone, CBE
Function Chair of the Board



Name Ulla Litzén
Function Board member



Name Katarina Martinson
Function Board member



Name Bertrand Neuschwander
Function Board member

Born 1955

1956

1981

1962

CV

M. A., University of Glasgow, Scotland, Hon. Doc. in B.A., University of South Carolina, US. Hon. Doc. in Science, Cranfield University, UK. Member of the People & Sustainability Committee.

B. Sc., Stockholm School of Economics, Sweden and an MBA, Massachusetts Institute of Technology, US. Chair of the Audit Committee.

M. Sc., Stockholm School of Economics, Sweden. Portfolio management for the Lundberg Family. Member of the Audit Committee.

Graduate engineer, Institut National Agronomique de Paris-Grignon, France, with an MBA from INSEAD. Member of the People & Sustainability Committee.

Other major assignments

Board Chair of Combient AB and of the British-Swedish Chamber of Commerce. Vice Board Chair of Wärtsilä Corporation. Board member of Investor AB, Northvolt AB and Volvo Cars.

Board member of AB Electrolux, Epiroc AB, NCC AB and Ratos AB.

Board Chair of Indutrade AB. Board member of L E Lundberg-företagen AB, Fastighets AB L E Lundberg, Förvaltnings AB Lunden, L E Lundberg Kapital-förvaltning AB, Fidelio AB and AniCura AB.

Board member of Serge Ferrari Group SA.

Previous positions

President & CEO of AB SKF 2003–2014. Executive Vice President of AB SKF 1999–2003. President Automotive Division, AB SKF 1995–2003. Senior management positions within AB SKF since 1987.

President of W Capital Management AB 2001–2005. Senior management positions and member of the Management Group, Investor AB 1996–2001. Managing Director, responsible for Core Holdings 1999–2000. President of Investor Scandinavia AB 1996–1998.

Analyst at Handelsbanken Capital Markets 2008, Vice President at Strategas Research Partners LLC, New York, US 2006–2008, investment research at ISI, International Strategy & Investment Group, New York, US 2005–2006.

Chief Operating Officer, Groupe SEB, France 2014–2019, Senior Executive Vice President for Business Units, Brands, Innovation & Strategy, Groupe SEB 2012–2014, Senior Executive Vice President for Business Units Brands & Innovation, Groupe SEB 2010–2012, CEO, Devanlay/Lacoste 2004–2009, Chair and Chief Executive Officer, Aubert Group 2001–2004.

Holdings in Husqvarna December 31, 2019

990 A-shares, 14,800 B-shares, and 384,024 call options¹.

10,000 B-shares

113,478 A-shares
378,737 B-shares

7,500 B-shares

Nationality / Elected

UK / 2006

SE / 2010

SE / 2012

FR / 2016

Total fees 2019, KSEK

2,080

820

715

660

Board meeting attendance

10/10

10/10

10/10

10/10

People & Sustainability Committee attendance

3/3

–

–

1/3

Audit Committee attendance

–

7/7

6/7

–

Independence to Husqvarna Group

Yes

Yes

Yes

Yes

Independence to major shareholders

No

Yes

No

Yes

¹ Consisting of (a) 192,012 call options issued by Investor AB entitling to purchase Husqvarna B-shares, and (b) 192,012 call options issued by L E Lundbergföretagen AB entitling to purchase Husqvarna B-shares.

Auditors

Ernst & Young AB, Hamish Mabon, Authorized Public Accountant. Born 1965. Other audit assignments include: Skanska AB, Svenska Cellulosa Aktiebolaget SCA, Essity AB and SEB. Holdings in Husqvarna: 0 shares.



Soili Johansson

Employee representative Born 1962. Representative of the Federation of Salaried Employees in Industry and Services. Holdings in Husqvarna: 225 A-shares, 750 B-shares.



Carita Svärd

Employee representative Born 1968. Representative of the Swedish Confederation of Trade Unions. Holdings in Husqvarna: 0 shares.



Daniel Nodhäll
Board member

1978

M. Sc., Stockholm School of Economics, Sweden. Managing Director, Head of Listed Core Investments at Investor AB. Member of the Audit Committee.

Board member of SAAB AB.

Analyst focused on the engineering sector at Investor AB since 2002.

10,000 B-shares

SE / 2013

715

9/10

–

7/7

Yes

No



Lars Pettersson
Board member

1954

M. Sc. in Applied Physics, Material Sciences, Uppsala University, Sweden. Hon. Doc. at Uppsala University. Chair of the People & Sustainability Committee.

Board Chair of KP-Komponenter A/S. Board member of Festo AG, AB Industrivärden, Indutrade AB and L E Lundbergföretagen AB.

President & CEO of AB Sandvik 2002–2011 and various positions within AB Sandvik 1978–2002.

5,000 B-shares

SE / 2014

720

10/10

3/3

–

Yes

No



Christine Robins
Board member

1966

BBA in Marketing and Finance, University of Wisconsin, Madison, US and an MBA at Marquette University, Milwaukee, WI, US.

President & CEO of Char-Broil LLC, Columbus, GA, US 2014–2019. President & CEO of BodyMedia, Pittsburgh, PA, US 2009–2014. President & CEO of Philips Oral Healthcare, Seattle, WA, US 2005–2009. Marketing and Finance positions within S.C. Johnson company 1988–2005.

American Depositary Receipts (ADR) B 1,866

US / 2017

580

9/10

–

–

Yes

Yes



Kai Wärn
Board member
(and President & CEO)

1959

M. Sc. in Mechanical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden. President & CEO of Husqvarna AB.

Board member of AB Electrolux.

Operations partner at IK Investment Partners Norden AB 2011–2013. President & CEO of Seco Tools AB 2004–2010. Various positions within ABB 1985–2004.

385,149 B-shares (Own)
100,000 B-shares (Legal person)

SE / 2014

–

10/10

–

–

No

Yes



Dan Byström
Deputy employee representative
Born 1971. Representative of the Swedish Confederation of Trade Unions. Holdings in Husqvarna: 20 B-shares.



Anders Köhler
Deputy employee representative
Born 1973. Representative of the Federation of Salaried Employees in Industry and Services. Holdings in Husqvarna: 30 A-shares, 1,050 B-shares.

Group Management



Name	Kai Wärn ¹	Glen Instone	Henric Andersson ¹	Brian Belanger	Leigh Dagberg
Function	President & CEO	Senior Vice President, Finance, IR & Communication and Chief Financial Officer	President, Construction Division	Senior Vice President, Legal Affairs, General Counsel and Secretary to the Board	Senior Vice President, People & Organization
Born	1959	1977	1973	1969	1970
CV	M. Sc. in Mechanical Engineering, KTH Royal Institute of Technology, Stockholm, Sweden. Employed 2013. Board member of AB Electrolux. Member of Group Management since 2013.	B.A. (Hons) in Accounting & Finance, University of Teesside, UK. Chartered Institute of Management Accountants (CIMA). Employed 2002. Member of Group Management since 2018.	M. Sc. in Industrial Engineering & Management, Linköping Institute of Technology, Sweden. Employed 1997. Member of Group Management since 2012.	J.D./LLM, Duke University School of Law. Employed 2006. Member of Group Management since 2015.	M. Sc. in Organizational Behaviour, University of London, UK. B.A. in History, University of California, Berkeley, US. Employed 2013. Member of Group Management since 2018.
Previous positions	Operations partner at IK Investment Partners Norden AB 2011–2013. President & CEO of Seco Tools AB 2004–2010. Various positions at ABB 1985–2004.	Various positions in Husqvarna Group; Vice President Global Sales & Service, Husqvarna Division 2016–2018, VP & CFO Husqvarna Division 2014–2017, VP & CFO EMEA, 2013–2014, VP & CFO Manufacturing, Logistics and Sourcing 2011–2013, VP & CFO Global Supply Chain 2009–2011.	Various positions in Husqvarna Group; Senior Vice President, Technology Office, 2014–2015. Executive Vice President, Head of Product Management & Development 2012–2015. Vice President Construction Equipment 2008–2011. Vice President Commercial Lawn & Garden and President, Husqvarna Turf Care 2004–2008. Various positions in product and business management, Husqvarna 1997–2004.	Vice President Legal Affairs Husqvarna Asia/Pacific Region, Husqvarna Group 2009–2012, with temporary additional assignments as Acting General Counsel Husqvarna Americas, Husqvarna Group 2013 and acting Head of Asia/Pacific Sales Region 2014. Associate General Counsel, Husqvarna Americas, Husqvarna Group 2006–2009, Partner, Cohen & Grigsby, P.C. 2000–2006.	Vice President and Head of People & Organization, Husqvarna Group 2018. Vice President Talent Management, Husqvarna Group 2013–2018. Manager, PwC Consulting 2012–2013. Partner and Consultant, MindShift 2002–2012. Head of Research & Consulting, Manager, Universum 1997–2000. Research Specialist and Product Developer, Information Express 1992–1996.
Holdings in Husqvarna December 31, 2019	385,149 B-shares (Own) and 100,000 B-shares (Legal person)	25,599 B-shares	56,065 B-shares	43,370 B-shares	12,992 B-shares

¹ Henric Andersson will replace Kai Wärn as President and CEO as from April 2, 2020.

**Per Ericson**

Senior Vice President,
Business Development

1963

Forest Engineer, Swedish University of Agricultural Sciences, Sweden. Studies in Change Management in Organization and Social Systems, International Association for Organisational and Social Development (IOD), Belgium. Employed 2011. Member of Group Management since 2011.

Various positions in Husqvarna Group; SVP Group People & Organization 2011–2018, acting SVP Group Communications, Brand & Marketing 2017–2018. Executive Vice President Human Resources, Haldex 2006–2011. Various positions with increasing responsibility, Stora Enso 1987–2006, most recently as Executive Vice President Corporate Human Resources & Business Excellence.

92,635 B-shares

**Pavel Hajman**

Senior Vice President,
Operations Development,
Global Information Services and CIO

1965

M. Sc. in Industrial Engineering and Management, Linköping Institute of Technology, Sweden. Employed 2014. Member of Group Management since 2014.

President, Husqvarna Division 2014–2018. Executive Vice President, Head of Asia/Pacific, Husqvarna Group 2014. President Assa Abloy AHG Greater China 2013–2014. Various positions in Seco Tools, President Asia/Pacific, Senior Vice President Group Business Development, Regional Director CEE, 1990–2013.

101,343 B-shares

**Anders Johanson**

Senior Vice President,
Innovation and
Technology and CTO

1969

M. Sc. Chemical Engineering and an MBA, Chalmers University of Technology, Gothenburg, Sweden. Employed 2015. Part time adjunct professor, industrial product development, KTH Royal Institute of Technology, Stockholm, Sweden. Board member Etac Group. Member of Group Management since 2015.

Partner and Global Practice Leader Technology and Innovation Management, Arthur D. Little 2000–2006; 2008–2015. Director Strategic Product and Technology Planning, Gambro 2008. Director Business office and head of Business Consulting, Volvo IT 2006–2007. Various positions within Nobel Biocare 1996–2000.

17,761 B-shares

**Sascha Menges**

President,
Husqvarna Division

1971

M. Sc. in Ind. Engineering & Management, Swiss Federal Institute of Technology, Zurich, Switzerland. MBA, INSEAD, France. Employed 2004. Member of Group Management since 2011.

President Gardena Division 2014–2018. Executive Vice President, Head of Manufacturing & Logistics, Husqvarna Group 2011–2014. Various positions in Supply Chain Management and Operations, Husqvarna Group 2007–2011. Vice President Supply Chain Management, Gardena AG 2004–2007. Associate Principal Management Consulting, McKinsey & Company, Inc 1996–2004.

111,026 B-shares

**Pär Åström**

President,
Gardena Division

1972

M. Sc. in Industrial Engineering & Management, KTH Royal Institute of Technology, Stockholm, Sweden. Employed 2013. Member of Group Management since 2015.

Senior Vice President Business Development, Husqvarna Group 2013–2018. Principal, A.T. Kearney Management Consultants 2007–2013. A.T. Kearney and Occam Associates Management Consulting 1998–2007.

61,838 B-shares

Consolidated income statement

SEKm	Note	2019	2018
Net sales	3	42,277	41,085
Cost of goods sold	5, 6	–29,748	–30,583
Gross income		12,529	10,502
Selling expenses	5	–6,985	–6,473
Administrative expenses	5	–2,051	–2,014
Other operating income	7	203	63
Other operating expenses	7	–6	–8
Operating income	3, 4, 8	3,690	2,070
Financial income	9	18	72
Financial expenses	9	–586	–581
Financial items, net		–568	–509
Income after financial items		3,122	1,561
Income tax	10	–594	–348
Net income		2,528	1,213
Net income attributable to:			
Equity holders of the Parent Company		2,527	1,212
Non-controlling interests		1	1
Net income		2,528	1,213
Earnings per share:			
Before dilution, SEK	11	4.42	2.12
After dilution, SEK	11	4.42	2.12
Average number of shares outstanding:			
Before dilution, millions	11	572.0	571.5
After dilution, millions	11	572.2	572.3

Consolidated comprehensive income statement

SEKm	Note	2019	2018
Net income		2,528	1,213
Other comprehensive income			
<i>Items that will not be reclassified to the income statement:</i>			
Remeasurements on defined benefit pension plans, net of tax		–302	–95
Total items that will not be reclassified to the income statement, net of tax		–302	–95
<i>Items that may be reclassified to the income statement:</i>			
Exchange rate differences on translating foreign operations			
Currency translation differences	19	916	1,206
Net investment hedge, net of tax	19	–525	–826
Cash flow hedges			
Result arising during the period, net of tax	19	10	66
Reclassification adjustments to the income statement, net of tax	19	–89	79
Total items that may be reclassified to the income statement, net of tax		312	525
Other comprehensive income, net of tax		10	430
Total comprehensive income		2,538	1,643
Total comprehensive income attributable to:			
Equity holders of the Parent Company		2,537	1,642
Non-controlling interests		1	1
Total comprehensive income		2,538	1,643

Consolidated balance sheet

SEKm	Note	Dec 31, 2019	Dec 31, 2018
Assets			
<i>Non-current assets</i>			
Property, plant and equipment ¹	12	6,794	6,064
Right of use assets ¹	13	1,585	120
Goodwill	14	7,338	7,105
Other intangible assets	14	5,629	5,534
Investments in associated companies	15	33	–
Derivatives	20, 26	1	0
Other non-current assets	16	669	592
Deferred tax assets	10	1,690	1,585
Total non-current assets		23,739	21,000
<i>Current assets</i>			
Inventories	17	10,858	11,067
Trade receivables	20	3,620	3,613
Derivatives	20, 26	592	357
Tax receivables		250	218
Other current assets	18	1,011	1,006
Cash and cash equivalents	20	1,911	1,346
Total current assets		18,242	17,607
Total assets		41,981	38,607
Equity and liabilities			
<i>Equity attributable to equity holders of the Parent Company</i>			
Share capital	19	1,153	1,153
Other paid-in capital	19	2,605	2,605
Other reserves	19	763	451
Retained earnings	19	12,760	11,798
Total equity attributable to equity holders of the Parent Company		17,281	16,007
Non-controlling interests	19	2	2
Total equity		17,283	16,009
Non-current liabilities			
Borrowings	20, 26	7,047	6,038
Lease liabilities ¹	20, 26	1,304	191
Derivatives	20, 26	55	34
Deferred tax liabilities	10	1,732	1,794
Provisions for pensions and other post-employment benefits	21	2,622	2,101
Other provisions	22	610	696
Total non-current liabilities		13,370	10,854
Current liabilities			
Trade payables	20	4,099	4,622
Tax liabilities		269	145
Other liabilities	23	2,995	2,557
Borrowings	20, 26	2,694	3,516
Lease liabilities ¹	20, 26	457	16
Derivatives	20, 26	229	218
Other provisions	22	585	670
Total current liabilities		11,328	11,744
Total equity and liabilities		41,981	38,607

¹ Most of the previous operating leases have been recognised from January 1, 2019 as right of use assets and lease liabilities, because of the adoption of IFRS 16. Previous financial leases have been included as comparative information for right of use assets and lease liabilities. For further information on the translation to IFRS 16 refer to note 1 and 28.

Consolidated cash flow statement

SEKm	Note	2019	2018
Cash flow from operations			
Operating income		3,690	2,070
<i>Non cash items</i>			
Depreciation/amortization and impairment	5, 12, 13, 14	2,089	1,930
Other non cash items		270	676
<i>Cash items</i>			
Paid restructuring costs		–272	–62
Net financial items, received/paid		–490	–448
Taxes paid		–811	–970
Cash flow from operations, excluding change in operating assets and liabilities		4,476	3,196
Change in operating assets and liabilities			
Change in inventories		627	–1,366
Change in trade receivables		114	–69
Change in trade payables		–656	296
Change in other operating assets/liabilities		347	–70
Cash flow from operating assets and liabilities		432	–1,209
Cash flow from operations		4,908	1,987
Investments			
Acquisitions and divestments of subsidiaries/operations and divestments of property, plant and equipment ¹	27	349	–237
Investments in property, plant and equipment	12	–1,577	–1,542
Investments in intangible assets	14	–655	–693
Investments and divestments of financial assets		–56	0
Cash flow from investments		–1,939	–2,472
Cash flow from operations and investments		2,969	–485
Financing			
Proceeds from borrowings	26	3,577	4,875
Repayment of borrowings	26	–3,466	–2,950
Repayment of lease liabilities	26	–447	–
Net investment hedge	26	–1,017	–1,053
Change in other interest-bearing net debt excluding liquid funds	26	194	332
Dividend paid to shareholders		–1,287	–1,286
Dividend paid to non-controlling interests		–1	–6
Cash flow from financing		–2,447	–88
Total cash flow		522	–573
Cash and cash equivalents at the beginning of the year		1,346	1,872
Exchange rate differences referring to cash and cash equivalents		43	47
Cash and cash equivalents at year-end		1,911	1,346

¹ Whereof net cash flow from investments in subsidiaries and operations SEKm –41 (–294).

Consolidated statement of changes in equity

SEKm	Attributable to equity holders of the Parent Company				Total	Non-controlling interests (Note 19)	Total equity
	Share capital (Note 19)	Other paid-in capital (Note 19)	Other reserves (Note 19)	Retained earnings (Note 19)			
Opening balance January 1, 2018	1,153	2,605	-74	11,969	15,653	2	15,655
Net income	-	-	-	1,212	1,212	1	1,213
Other comprehensive income	-	-	525	-95	430	-	430
Total comprehensive income	-	-	525	1,117	1,642	1	1,643
Transactions with owners							
Share-based payment	-	-	-	-2	-2	-	-2
Dividend to non-controlling interests	-	-	-	-	-	-1	-1
Dividend SEK 2.25 per share	-	-	-	-1,286	-1,286	-	-1,286
Closing balance December 31, 2018	1,153	2,605	451	11,798	16,007	2	16,009
Net income	-	-	-	2,527	2,527	1	2,528
Other comprehensive income	-	-	312	-302	10	-	10
Total comprehensive income	-	-	312	2,225	2,537	1	2,538
Transactions with owners							
Share-based payment	-	-	-	24	24	-	24
Dividend to non-controlling interests	-	-	-	-	-	-1	-1
Dividend SEK 2.25 per share	-	-	-	-1,287	-1,287	-	-1,287
Closing balance December 31, 2019	1,153	2,605	763	12,760	17,281	2	17,283

Note 1 Accounting principles

BASIS OF PREPARATION

The consolidated financial statements of Husqvarna AB (publ) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union. Entities within Husqvarna Group apply uniform accounting principles. The policies set out below have been consistently applied to all years presented, unless otherwise stated. In addition, Swedish Annual Accounts Act and RFR 1, Supplementary Rules for Groups, have been applied. The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities carried at fair value through profit or loss (derivative instruments) and financial assets at fair value through other comprehensive income (trade receivables not sold but part of factoring programmes).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURES

New standards adopted by Husqvarna Group 2019

The following new standards are adopted by Husqvarna Group as of January 1, 2019:

IFRS 16 "Leases" replaces IAS 17 "Leases" and is effective for annual periods beginning on or after January 1, 2019. The new standard have resulted in most leases being recognized in the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased asset) and a financial liability (the obligation to make lease payments) is recognized, with exceptions for short-term leases and low-value assets which is expensed on a straight line basis. The standard affects the accounting for the Group's operating leases (mainly buildings, cars and forklifts).

Husqvarna Group adopts IFRS 16 "Leases" retrospectively from January 1, 2019 with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the 2018 financial year have not been restated as according to the transition requirements. On adoption of IFRS 16 the Group has recognized lease liabilities in relation to leases which have previously been classified as operating leases under IAS 17. For further information on the transition to IFRS 16 and restatement, refer to note 28.

IFRIC 23 "Uncertainty over income tax treatments" clarifies how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. The interpretation is effective for annual periods beginning on or after January 1, 2019. Uncertain tax liabilities that have previously been presented as deferred tax are reclassified to current tax, normally as a current liability. Husqvarna Group adopts IFRIC 23 "Uncertainty over income tax treatments" retrospectively from January 1, 2019 with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the 2018 financial year have not been restated as according to the transition requirements. For further information on transition to IFRIC 23 and restatement, refer to note 28.

There are no other IFRS or IFRIC interpretations that are not yet effective and are expected to have a material impact on the Group.

ACCOUNTING AND VALUATION PRINCIPLES

Principles applied for consolidation

Subsidiaries

The financial statements include Husqvarna AB and all companies (subsidiaries) which the Parent Company controls. Husqvarna Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through the power over the entity. The Group generally controls a company by a shareholding of more than 50% of the voting rights referring to all shares and participations. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

Husqvarna Group applies the acquisition method to account for business combinations, whereby the assets, liabilities and contingent liabilities in a subsidiary on the date of acquisition are valued at fair value to determine the acquisition value to the Group. The valuation includes evaluation of any contingent consideration which is recognized at fair value at the acquisition date. All subsequent changes in the contingent consideration are recognized in the income statement. Transaction costs related to the business combination are expensed as they are incurred. If the consideration paid for the business combination exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized as goodwill. If the fair value of the acquired net assets exceeds the consideration paid for the business combination, as in a bargain purchase, the difference is recognized directly in the income statement. The consolidated income statement for the Group includes the income statements for the Parent Company and its directly and indirectly owned subsidiaries after:

- elimination of intercompany transactions, balances and unrealized intercompany profits in stock, and
- depreciation and amortization of acquired surplus values

At year-end 2019, the Group comprised of 140 operating units, and 96 legal entities.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the equity holders. Acquisitions from non-controlling interests result in an adjustment to equity, corresponding to the difference between the consideration paid and the carrying value of the non-controlling interest. Gains or losses on disposals to non-controlling interests are reported in equity. Disposals to non-controlling interests which result in loss of control are recorded as gains and losses in the income statement.

Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. The financial statements are presented in Swedish kronor, SEK, which is the Parent Company's functional currency and the presentation currency of Husqvarna Group.

Exchange rate gains or losses that occur from transactions in other currency than the functional currency and in translation of monetary assets or liabilities to the exchange rate at closing date are reported in the income statement. An exception to this accounting treatment is if the transaction qualifies as cash flow hedges or hedge of net investments of which the unrealized exchange gains or losses are recognized in other comprehensive income.

Exchange rate gains and losses that relate to borrowing costs or liquid assets are accounted for in the income statement within the finance net. Other foreign exchange rate differences are accounted for in the operating income.

The income statements and balance sheets for all Group companies with functional currency other than the presentation currency of

Husqvarna Group is translated to the Group's currency. Assets and liabilities for each balance sheet presented are translated at the closing rate. Income and expenses for each income statement are translated at average rates for each month respectively.

All currency translation differences that occur from the translation are accounted for in other comprehensive income. When a foreign operation is divested, currency translation differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Segment reporting

Husqvarna Group's operating segments are reported in a manner consistent with the internal reporting provided to the President and CEO (Husqvarna Group's Chief operating decision maker) as a basis for evaluating the performance and for decisions on how to allocate resources to the segments. Husqvarna Group comprises three segments (divisions): Husqvarna, Gardena and Construction. For a more detailed description of the segments, see note 3.

Property, plant and equipment

Property, plant and equipment are reported at historical cost less accumulated depreciation, adjusted for any impairment charges. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred. Land is not depreciated as it is considered to have an unlimited useful life. Depreciation is based on the following estimated useful lives:

Buildings and land improvements	10–50 years
Machinery and technical installations	3–15 years
Other equipment	3–10 years

The Group assesses the estimated useful lives as well as whether there is any indication that any of the Company's property, plant and equipment are impaired at the end of each reporting period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the costs of those assets. Qualifying assets are assets that take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Intangible assets

Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess between the purchase price and the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is reported as an intangible asset with indefinite useful life and measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units that is expected to benefit from the synergies of the combination.

The value of goodwill is continuously monitored, and is tested annually for impairment or more regularly if there is an indication that the asset might be impaired. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Brands

Brands that have been acquired separately are shown at historical cost. Brands that have been acquired through business combination are recognized at fair value at the acquisition date. All brands with finite useful lives are amortized on a straight-line basis during the useful life, estimated at 10 years. Brands are carried at cost less accumulated amortization and accumulated impairment. The brand Gardena is reported as an intangible asset with indefinite useful life. No other brands are identified as having indefinite useful lives.

Product development expenses

Husqvarna Group capitalizes development expenses for new products provided that the level of certainty as to their future economic benefits and useful lives are high. An intangible asset is only recognized to the degree that the product is sellable on existing markets and that resources exist to complete the development. Only expenditure, which is directly attributable to the new product's development, is recognized. Capitalized development costs are amortized over their useful lives, ranging between 3–5 years. The assets are tested for impairment annually or when there is an indication that the intangible asset may be impaired.

Other intangible assets

Other intangible assets include computer software, patents, licenses and customer relations. Computer software, patents and licenses are recognized at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Computer software has an estimated useful life of 3–6 years and patents and licenses have a useful life of 10–13 years. Customer relations are capitalized at fair value in connection with business combinations. The values of these customer relationships are amortized over their useful lives of 5–12 years.

Associates

Associates are all companies over which Husqvarna Group has significant influence but not control. The Group generally has significant influence over a company by a shareholding between 20% and 50% of the voting rights. Husqvarna Group applies the equity method to account for investments in associates. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Impairment of non-financial assets

Assets that have an indefinite useful life (goodwill and the brand Gardena) or intangible assets not ready for use are not subject to amortization but tested annually for impairment, or more often if there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is an indication of impairment the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized by the amount by which the net book value of an asset exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped in cash generating units, which are the smallest identifiable group of assets generating cash inflows that are substantially independent of the cash inflows from other assets or group of assets. The Group's cash generating units are the four segments (divisions); Husqvarna, Gardena, Consumer Brands and Construction. Refer to note 2 and note 14 regarding impairment of intangible assets with indefinite useful life.

Financial instruments

Recognition and measurement of financial instruments

Regular purchases and sales of financial assets are recognized on trade date, the date on which Husqvarna Group commits to purchase or sell the asset. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets are derecognized when the right to receive cash flows from the investments has expired or has been transferred and when the Group has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognized when the obligation is satisfied, cancelled or has expired.

Financial assets and liabilities at fair value through profit or loss are carried to fair value. All changes to fair value are reported in the income statement when they arise.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Husqvarna Group has entered into master netting arrangements for certain financial derivatives. When the criteria for offsetting are fulfilled the derivatives are netted in the balance sheet.

Financial assets

Classification and subsequent measurement

Husqvarna Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortized cost

Financial assets are included in current assets with the exception of maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Debt instruments

Debt instruments are those financial instruments that meet the definition of a financial liability from the issuer's perspective, such as for example trade receivables.

Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments; Amortized cost and Fair value through other comprehensive income.

Amortized cost

Financial assets that are held for collection of contractual cash flows and where those cash flows represent solely payments of principal and interest are measured at amortized cost. Any expected credit loss allowance recognized (see section "Impairment and expected loss" below) will adjust the carrying amount of these assets. Interest income from these financial assets is included in the income statement using the effective interest rate method. Assets recorded at amortized cost include financial non-current assets, trade receivables, other receivables, short-term investments and cash and cash equivalents.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are reported in other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Assets recorded at fair value through other comprehensive income include trade receivables, where part of the portfolio is sold off in factoring agreements.

Husqvarna Group reclassifies debt investments only when its business model for managing those assets changes.

Impairment and expected loss

Husqvarna Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortized cost and FVOCI. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and reasonable and supportable forward looking information that is available without undue cost or effort at the reporting date about past events, current condition and forecasts of future economic conditions.

For trade receivables, the Group applies the simplified approach in IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Expected credit losses are estimated by grouping trade receivables based on shared credit risk characteristics, days past due.

Financial liabilities

Classification and subsequent measurement

All of the Groups financial liabilities (excluding derivatives which are addressed in separate section below) are classified as subsequently measured at amortized cost. Liabilities measured at amortized cost include borrowings, financial lease liabilities, trade payables and other liabilities. Financial liabilities due within 12 months are classified as short-term liabilities, while those due after 12 months are classified as long-term liabilities.

Accounting of derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Husqvarna Group designates certain derivatives as either hedges of highly probable forecast transactions (cash flow hedges) or hedges of net investments in a foreign operation (net investment hedge). When hedging net investments in foreign operations and forecasted cash flows from sales and purchases, the hedged risk is defined as the risk of changes in the spot rate.

Husqvarna Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as risk-management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the hedging inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months and as current asset or liability if the maturity is shorter than 12 months.

Cash flow hedge

The effective portion of change in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as operating income.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale which is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial item (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the value of the asset or liability. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory.

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement within financial items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Liquid funds

Liquid funds consist of cash on hand, bank deposits, other short-term highly liquid investments and fair value derivative assets.

Inventories

Inventories and work in progress are valued at the lower of cost and net realizable value. The value of inventories is determined by using the weighted average cost formula. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to execute the sale at market value. Gains and losses previously deferred in equity on hedged forecast transactions are also included in the initial measurement cost of the inventory. The cost of finished goods and work in progress comprises raw material, direct labour, other direct cost and other related production overheads. Borrowing costs are not included in inventory. Appropriate provisions have been made for obsolescence.

Current and deferred tax

The tax expense for the period consists of both current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In these cases tax is reported in other comprehensive income and equity respectively.

Current tax is calculated based on the taxable result for the year. This can differ to the income before tax reported in the income statement due to adjustment for non-taxable and non-deductible income and expenses and temporary differences. The current income tax is calculated on the basis on the tax laws in the country of the Parent Company or the subsidiaries.

Management periodically review the positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Current tax also includes adjustments to income tax related to prior years.

Deferred tax is accounted for in accordance with the liability method. This means that a deferred tax asset or liability is reported on all temporary differences arising between the tax basis for assets and liabilities and their net book value. Deferred tax is calculated based on the tax rates in the respective country.

Taxes incurred by Husqvarna Group are affected by appropriations and other taxable (or tax-related) transactions in the individual Group companies. They are also affected by the utilization of tax losses carried forward referring to previous years or to acquired companies. Deferred tax assets on tax losses, temporary differences and tax credits are recognized to the extent it is probable that they will be utilized in the foreseeable future.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets and deferred tax liabilities are shown net when a company or a group of companies, has a legally enforceable right to set off tax assets against tax liabilities, they refer to the same taxation authority and the intention is to settle the assets/liabilities with a net payment.

Pensions and other post-employment benefits

Pension obligations

Pensions and other post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Under a defined contribution plan, the Group pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Contributions are expensed when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

All other pensions and other post-employment benefit plans are defined benefit plans. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, depending on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid, in most countries AA-rated corporate bond indexes matching the duration of the pension

obligation and in Sweden mortgage bonds. In countries without a deep market in such bonds, the market rate on government bonds is used.

Past service costs are recognized immediately in the operating income. Interest on the Group's net pension plans are reported net within the Group's finance items, and is calculated applying the discount rate as when calculating the net defined liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Termination benefits

Termination benefits are payable when the employment is terminated by the Group before the normal retirement date, or whenever they accept voluntary redundancy in exchange for these benefits. Termination benefits are recognized at the earlier of a) when the Group can no longer withdraw the offer of those benefits and b) when the entity recognizes costs for a restructuring and involves the payment of termination benefits.

Share-based compensation

Husqvarna Group has share-based, equity settled, compensation programs where the Group receives services from employees as consideration for equity instruments (shares and options). The cost of the granted instruments' fair value at grant date is recognized during the vesting period.

The fair value of the instruments is the market value at grant date, adjusted for the discounted value of future dividends which employees will not receive. At the end of each reporting period, the Group revises the estimates of the number of instruments that are expected to vest. Husqvarna Group recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, the Group provides for employer social contributions expected to be paid in connection with the share-based compensation programs. The costs are charged to the income statement over the vesting period. The provision is periodically revalued on the basis of the fair value of the instruments at each closing date.

Provisions

Provisions are recognized when the Group has a present legal or contractual obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. Provisions are measured at present value, when material.

Provisions for warranties are recognized at the date of sale of the products covered by the warranty and are calculated on the basis of historical data for similar products.

Restructuring provisions are recognized when the Group has adopted a detailed formal plan for the restructuring and has either started the implementation of the plan or communicated its main features to those affected by the restructuring.

Revenue recognition

Husqvarna Group mainly generates revenue from sales of finished products including spare parts and accessories, but also from services and license agreements.

Sale of finished products including spare parts and accessories

Husqvarna Group manufactures and sells finished products, spare parts and accessories mainly to dealers and retailers but also directly to consumers. In customer contracts with sale of finished products there are generally two performance obligations, products and shipping services. Revenue recognition will occur at a point in time when control of the asset is transferred to the customer. The point in time where control is transferred to the customer for goods depends on the terms of delivery (incoterms) used. Husqvarna Group is the principal for both the sale of the goods and the shipping service, hence the "gross" amount paid by the customer for the shipping service is recognized as revenue and the corresponding expense is recognized in cost of goods sold. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The normal credit terms is usually 30–90 days.

The products are sometimes sold with volume related discounts based on the aggregated sales over a specific time period, normally 1 year. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts using either the expected value method or an assessment of the most likely amount. Revenue is only recognized to the extent that its highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discount payable to customers in relation to sales made until the end of the reporting period.

The estimated volume discount is revised at each reporting date. A right of return are sometimes granted in the retail and consumer industry. A right of return can follow from legislation, statutory requirements, business practice or be stated in the contract with the customer. Revenue is not recognized for goods expected to be returned, instead a refund liability (included in other current liabilities) and a right to the returned goods (included in other current assets) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale (expected value method). The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

Services

Husqvarna Group provide services such as product repairs and service/maintenance. Revenues from product repairs are recognized when the service is performed. Revenues from service/maintenance agreements are recognized on a linear basis over the contract period, unless there is evidence that some other method better measures progress towards satisfying the performance obligation.

Husqvarna Group sells some extended warranty that is separately priced. The revenue is recognized during the warranty period, which usually starts after the standard warranty period. The revenue is recognized on a linear basis over the contract period, unless there is evidence that some other method better measures progress toward satisfying the performance obligation. Warranty during the standard warranty terms is recognized as a provision.

License agreements

Husqvarna Group licenses brand names to other companies. The license provides the licensee a right to access intellectual property throughout the license period. The most common license types for Husqvarna Group is sales- or usage-based royalties where the revenue is recognized when the underlying sales or usage occur.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income

Dividends are recognized when it is determined that payments will be received.

Government grants

Government grants relate to financial grants from governments, public authorities and similar local, national, or international bodies. These are recognized when there is a reasonable assurance that Husqvarna Group will comply with the conditions attached to them and that the grants will be received. Government grants relating to assets are included in the balance sheet as prepaid income and recognized as income over the useful life of the assets. Government grants relating to expenses are recognized in the income statement as a deduction of such related expenses.

Leasing (Applicable until December, 31 2018)

The accounting principles for Leasing which are applicable until December 31, 2018 are available in the Annual Report of 2018, which can be found at www.husqvarnagroup.com.

Leasing (Applicable from January, 1 2019)

Husqvarna Group mainly lease assets within the categories: "Land and buildings" (warehouses, office space and factories), "Forklifts and machinery" and "Cars and other vehicles". The lease contracts contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

The Groups lease contracts for buildings typically range from 3–10 years non-cancellable lease term at inception, depending on the type of property. Forklifts leases within the Group usually have a non-cancellable lease term of 5 years, and cars 3 years, at inception. Extension and termination options are included in a number of the lease contracts. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension and termination options are only included in the lease term if reasonably certain to be utilised. Extension/termination options for some of these assets might be used at a later date.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Lease liabilities due within 12 months are classified as short-term liabilities, while those due after 12 months are classified as long-term liabilities. Each lease payment is allocated between amortisation of the lease liability and interest. The interest component is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter period of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less lease incentives receivable
- Variable lease payments based on an index or a rate
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that termination option.

The lease payments are discounted using the incremental borrowing rate as the interest rate implicit in the lease contracts cannot be readily determined. The incremental borrowing rate is calculated per country and for different durations.

Right-of-use assets are measured at cost comprising the following:

- The amount of initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration cost.

Payments associated with short-term leases and leases of low-value are recognized on a straight line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets with a value of SEK 50t or less when in new condition. Service payments is included as part of the lease liability for "Forklifts and machinery" and "Cars and other vehicles", and excluded for "Land and buildings".

Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

Cash flow

The cash flow statement has been prepared according to the indirect method.

Note 2 Important accounting estimates and assessments

In order to prepare these financial statements, management needs to make estimates and assessments and therefore use certain assumptions concerning the future. Management makes estimates and assessments based on past experience and assumptions that are believed to be reasonable and realistic under the circumstances. The use of such estimates and assessments has an impact on the income statement as well as the balance sheet and on the disclosures presented, such as contingent liabilities. Actual results could differ from these estimates under different assumptions or circumstances. Summarized below are those accounting principles that require subjective judgement from management in making assumptions or estimates regarding the effects of matters that are inherently uncertain.

Impairment test of intangible assets with indefinite useful life

Intangible assets that have an indefinite useful life (goodwill and the brand Gardena) are tested annually for impairment, or more often if there is an indication of impairment. When testing for impairment, the Group estimates the recoverable amount of the asset. An impairment loss is recognized by the amount by which the net book value of an asset exceeds its recoverable amount. The recoverable amount for a cash generating unit is determined on the basis of value in use estimated by using the discounted cash flow method based on expected future results. Key assumptions for forecasting are expected growth, margin and discount rates. For further information refer to note 14.

Inventory

Husqvarna Group's inventory is accounted for to the lowest of the acquisition value in accordance with the weighted average cost formula, and the net realizable value. The net realizable value is adjusted for the estimated write-down for older articles, physically damaged goods, excess inventory and sales costs. The Group's large seasonality in stockpiling and sales together with weather-dependent products increase the difficulty to estimate the value of inventory. To minimize these difficulties, Husqvarna Group is constantly working with streamlining the production chain, keeping the inventory levels on a reasonably low level and focus on the inventory valuation to ensure that it is accurate in accordance with the circumstances on the closing date.

Tax

Husqvarna Group estimates income tax for each of the taxing jurisdictions in which the Group operates as well as any deferred taxes based on temporary differences. Deferred tax assets, which primarily relate to tax loss carry forwards and temporary differences, are recognized if future taxable income is expected to allow for the recovery of those tax assets. Changes in assumptions in the projection of future taxable income as well as changes in tax rates may result in significant differences in the valuation of deferred taxes. For further information regarding tax refer to note 10. Provisions for potential tax exposure are based on management's best estimate.

Provisions for pensions and other post-employment benefits

The present value of the Group's net pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Assumptions used calculating the net pension liability comprise of for example; discount rate, inflation, mortality, future salary increases etc. Any changes in these assumptions will impact the carrying amount of the net pension liability. Sensitivity analysis of the effect from a change in the main assumptions and potential risks affecting the liabilities are included in note 21.

Share-based compensation

Husqvarna Group has share-based, equity settled, compensation programs where the Group receives services from employees as consideration for equity instruments. The share-based compensation includes matching shares awards and performance based share awards. In order to receive those, the employee is required to stay employed three years

after the grant date and to maintain the original investment. The number of performance based share awards that vest further depend on the fulfilment of certain levels of increase of the Company's value creation as determined by the Board of Directors. These levels are "Entry", "Target" and "Stretch". "Entry" constitutes a minimum level which must be exceeded in order for the performance based share awards to vest and give right to Class B-shares. At the end of each reporting period, the Group revises the estimates of the number of instruments that are expected to vest. The number of performance based shares that are expected to vest is based on management's best estimate. For further information refer to note 4.

Warranty provision

Provision for warranty comprises all potential expenses for repairing or replacing products sold. Provisions are made when the products are sold and are normally limited to two years. The provision is estimated for each group of products and based on historical information and management's best estimate. For further information refer to note 22.

Provision for restructuring

Provision for restructuring represents the expected payments to be incurred in the coming years as a consequence of Husqvarna Group's decision to close some factories, rationalize production and reduce personnel. The amounts are based on the Group management's best estimates and are adjusted when changes to these estimates are known. Provision for reduction of personnel is calculated on individual basis except for most Blue Collar workers where negotiations are made collectively and are based on management's best estimate of the amount expected to be paid out. For further information refer to note 22.

Claims reserves

Husqvarna Group maintains third-party insurance coverage and is insured through wholly-owned insurance subsidiaries (captives) in regards to a variety of exposures and risks, such as property damage, business interruption and product liability claims. Claims reserves in the captives, mainly for product liability claims, are calculated on the basis of a combination of case reserves and reserves for claims incurred but not reported. Actuarial calculations are undertaken to assess the adequacy of the reserves based on historical loss development experience, benchmark reporting and payment patterns. These actuarial calculations are based on several assumptions and changes in these assumptions may result in significant differences in the valuation of the reserves. For further information refer to note 22.

Contingent liabilities

The Group is involved in various disputes arising from time to time in its ordinary course of business. Husqvarna Group estimates that none of the disputes in which the Group is presently involved in or that have been settled recently have had, or may have, a material effect on Group's financial position or profitability. However, the outcome of complicated disputes is also difficult to foresee, and it cannot be ruled out that the disadvantageous outcome of a dispute may result in a significantly adverse impact on the Group's results of operations and financial position. For further information refer to note 24.

Note 3 Segment information

As of January 1, 2019, Husqvarna Group's segment reporting comprise three divisions; Husqvarna, Gardena and Construction. The change is due to the restructuring of the former Consumer Brands Division that has been dissolved into the Husqvarna and Gardena divisions. The North American part of former Consumer Brands is included in the Husqvarna Division and the European part is included in the Gardena Division. A restatement of the segment reporting to the new structure is included in this report in section "Allocation of the Consumer Brands Division". The divisions form the basis for the Group's internal reporting reviewed by the President and CEO (the Group's chief operating decision maker) in order to assess performance and make decisions on resource allocation.

The divisions are responsible for the operating income (excluding items affecting comparability) and the net assets used in their operations which are also the financial measures used when the President and CEO makes his assessment of the performance of the segments. Net financial income/expense, tax, net debt and equity are undistributed items not reported per division.

The divisions consist of both separate legal units and of units divided between divisions. This means that one unit can be part of more than

one division and, if so, costs and net assets are allocated between the relevant divisions. Operating costs, not included in the divisions, are shown under Group common costs, which mainly include costs for the Group's corporate functions. No sale of finished products is made between the divisions.

Segment reporting is based on the same accounting principles as for the Group. The divisions are responsible for the management of operational assets and their performance is measured at this level, while Group Treasury is responsible for financing at Group and country level. Consequently, liquid funds, interest-bearing receivables and liabilities, equity and tax items are not allocated to the divisions. Group common includes services such as Holding, Treasury and Risk Management.

All divisions include production, development, logistics, marketing and sales. The Husqvarna and Gardena divisions sell forest, park and garden products to retailers and dealers. Forest, park and garden products comprise six product categories; wheeled, robotics, handheld, watering, digital solutions and accessories. The Construction Division sells machines and diamond tools for the construction and stone industries. Group common includes royalty income from licensing of intellectual property such as brands to customers.

2019

SEKm	Husqvarna	Gardena	Construction	Group common ¹	Undistributed items ²	The Group
Net sales, finished goods	27,367	8,267	6,273	–	–	41,907
Net sales, services, license agreements and other	139	76	67	88	–	370
Net sales (external)	27,506	8,343	6,340	88	–	42,277
Operating income	2,260	847	779	–196	–	3,690
Whereof items affecting comparability ³	167	–	57	1	–	225
Operating income adjusted for items affecting comparability ³	2,427	847	836	–195	–	3,915
Financial income	–	–	–	–	18	18
Financial expenses	–	–	–	–	–586	–586
Income after financial items	2,260	847	779	–196	–568	3,122
Total assets	20,080	9,835	6,988	10	5,068	41,981
Liabilities	4,709	2,102	1,155	323	16,409	24,698
Total equity	–	–	–	–	17,283	17,283
Total equity and liabilities	4,709	2,102	1,155	323	33,692	41,981
Cash flow from operations ⁴	2,513	980	699	–192	–	4,000
Depreciation/amortization and impairment ³	1,316	417	340	8	–	2,081
Investments in property, plant and equipment	–1,053	–368	–156	0	–	–1,577
Investments in intangible assets	–437	–103	–115	0	–	–655
	2,339	926	768	–184	–	3,849
Change in other operating assets and liabilities ⁵	–	–	–	–	128	128
Acquired and divested assets/subsidiaries	–	–	–	–	349	349
Investments in financial assets	–	–	–	–	–56	–56
Net financial items, received/paid	–	–	–	–	–490	–490
Taxes paid	–	–	–	–	–811	–811
Cash flow from operations and investments	2,339	926	768	–184	–880	2,969

¹ Group common include common Group services such as Holding, Treasury and Risk Management, and income from license agreements.

² Undistributed items consist of liquid funds and other interest-bearing assets, interest-bearing liabilities, equity and tax items.

³ Husqvarna Group assess the performance of the segments based on operating income, excluding items affecting comparability. 2019 includes items affecting comparability referring to restructuring related expenses, amounting to SEK 225m. Impairment in the Group, excluding items affecting comparability, amount to SEK 16m whereof SEK –1m refer to the Husqvarna Division, SEK 15m to Gardena, SEK 2m to Construction and SEK 0m to Group common.

⁴ Cash flow from operations per division is calculated excluding depreciation/amortization and impairment, capital gains and losses, other non-cash items, paid restructuring expenses, net financial items, taxes paid and change in other operating assets/liabilities.

⁵ Change in other operating assets/liabilities also include other non cash items, paid restructuring costs, and capital gains and losses.

2018

SEKm	Husqvarna ¹	Gardena ¹	Construction	Group common ²	Undistributed items ³	The Group
Net sales, finished goods	27,032	8,086	5,679	–	–	40,797
Net sales, services, license agreements and other	124	32	83	49	–	288
Net sales (external)	27,156	8,118	5,762	49	–	41,085
Operating income	1,228	425	672	–255	–	2,070
Whereof items affecting comparability ⁴	878	226	44	23	–	1,171
Operating income adjusted for items affecting comparability ⁴	2,106	651	716	–232	–	3,241
Financial income	–	–	–	–	72	72
Financial expenses	–	–	–	–	–581	–581
Income after financial items	1,228	425	672	–255	–509	1,561
Total assets	18,701	9,398	6,451	14	4,043	38,607
Liabilities	5,320	1,762	1,085	381	14,050	22,598
Total equity	–	–	–	–	16,009	16,009
Total equity and liabilities	5,320	1,762	1,085	381	30,059	38,607
Cash flow from operations ⁵	1,289	630	417	–234	–	2,102
Depreciation/amortization and impairment ⁴	913	297	248	11	–	1,469
Investments in property, plant and equipment	–1,071	–309	–160	–2	–	–1,542
Investments in intangible assets	–466	–134	–84	–9	–	–693
	665	484	421	–234	–	1,336
Change in other operating assets and liabilities ⁶	–	–	–	–	–166	–166
Acquired and divested assets/subsidiaries	–	–	–	–	–237	–237
Investments in financial assets	–	–	–	–	0	0
Net financial items, received/paid	–	–	–	–	–448	–448
Taxes paid	–	–	–	–	–970	–970
Cash flow from operations and investments	665	484	421	–234	–1,821	–485

¹ Restated figures due to allocation of the Consumer Brands Division.

² Group common include common group services such as Holding, Treasury and Risk Management, and income from license agreements.

³ Undistributed items consist of liquid funds and other interest-bearing assets, interest-bearing liabilities, equity and tax items.

⁴ Husqvarna Group assess the performance of the segments based on operating income, excluding items affecting comparability. 2018 includes items affecting comparability referring to restructuring related expenses, amounting to SEK 1,171m. Impairment in the Group, excluding items affecting comparability, amount to SEK 14m whereof SEK 11m refer to the Husqvarna Division, SEK 1m to Gardena, SEK 2m to Construction and SEK 0m to Group common.

⁵ Cash flow from operations per division is calculated excluding depreciation/amortization and impairment, capital gains and losses, other non-cash items, paid restructuring expenses, net financial items, taxes paid and change in other operating assets/liabilities.

⁶ Change in other operating assets/liabilities also include other non cash items, paid restructuring costs, and capital gains and losses.

Geographic information

The table below shows sales per geographical market, regardless of where the goods are produced. Assets are reported where the asset is located.

SEKm	External sales		Non-current assets ¹	
	2019	2018	2019	2018
Germany	5,915	5,563	7,015	6,510
France	2,467	2,254	60	8
Sweden	1,755	1,670	6,320	5,725
Austria	1,313	1,224	38	10
Rest of Europe	10,365	10,355	1,602	1,248
Asia/Pacific	3,604	3,207	1,396	1,038
Canada	1,249	1,373	173	137
US	13,875	13,886	4,685	4,115
Latin America	1,368	1,263	44	32
Rest of the World	366	290	13	0
Total	42,277	41,085	21,346	18,823

¹ Non-current assets include property, plant and equipment, goodwill, other intangible assets and as of 2019 right of use assets.

Net sales per product category

SEKm	2019	2018
Forest, park and garden products	35,849	35,274
Construction products	6,340	5,762
Other	88	49
Total	42,277	41,085

Information on major customers

Husqvarna Group has no individual customer, which accounts for 10% or more of the Group's total net sales.

Note 4 Employees and employee benefits

Average number of employees

	2019			2018		
	Men	Women	Total	Men	Women	Total
Sweden	1,589	528	2,117	1,570	499	2,069
Germany	1,205	612	1,817	1,134	560	1,694
Czech republic	452	422	874	432	477	909
UK	321	88	409	296	82	378
Poland	174	85	259	165	76	241
Rest of Europe	1,190	504	1,694	1,134	463	1,597
Total Europe	4,931	2,239	7,170	4,731	2,157	6,888
China	606	195	801	596	193	789
Japan	284	52	336	311	55	366
Rest of Asia/Pacific	204	90	294	161	117	278
Total Asia/Pacific	1,094	337	1,431	1,068	365	1,433
US	2,236	1,418	3,654	2,596	1,851	4,447
Canada	97	47	144	91	53	144
Total North America	2,333	1,465	3,798	2,687	1,904	4,591
Brazil	138	52	190	133	50	183
Rest of Latin America	57	17	74	46	22	68
Total Latin America	195	69	264	179	72	251
Other markets	29	16	45	28	15	43
Total	8,582	4,126	12,708	8,693	4,513	13,206
Whereof:						
Board members	43	6	49	41	5	46
Presidents and other senior managers	52	2	54	45	3	48

Salary and remuneration

SEKm	2019	2018
Salary expenses	5,833	5,712
Social expenses	962	1,000
Pension expenses – defined benefit obligations	174	169
Pension expenses – defined contribution plans	178	167
Total	7,147	7,048
Whereof remuneration to Board, Presidents and other senior managers¹		
Salary expenses	85	106
(whereof variable salary expenses)	(31)	(27)
Social expenses	35	27
Pension expenses	19	22

¹ Refers to salary costs for all board members, presidents and other senior executives in the Parent Company and subsidiaries.

Remuneration to Group Management

SEKt	2019						Total
	Fixed salary	Variable salary	Pension costs	Long-term incentive	Other benefits ¹	Severance pay etc.	
President and CEO	10,686	4,184	4,274	3,390	180	–	22,714
Other members of Group Management ²	29,374	10,005	12,254	6,108	1,680	–	59,421
Total	40,060	14,189	16,528	9,498	1,860	–	82,135

¹ Refers to housing, travel, car, insurance and relocation benefits.

² Other members of Group Management comprise of nine individuals at year-end. One individual has left Group Management during the year.

SEKt	2018						Total
	Fixed salary	Variable salary	Pension costs	Long-term incentive	Other benefits ¹	Severance pay etc.	
President and CEO	10,275	1,358	4,110	824	180	–	16,747
Other members of Group Management ²	36,234	10,253	14,445	2,925	2,517	1,770	68,144
Total	46,509	11,611	18,555	3,749	2,697	1,770	84,891

¹ Refers to housing, travel, car, insurance and relocation service benefits.

² Other members of Group Management comprise eleven individuals. One individual has left Group Management during the year.

Remuneration principles to the Board and senior executives

For the CEO and other members of Group Management, the principles for remuneration approved by the AGM 2019 apply. The principles shall apply to contracts of employment entered into after the AGM and also to amendments made thereafter to contracts of employment that are in force. Remuneration to Group Management is determined by the Board of Directors based on proposals from the Board of Directors' People & Sustainability Committee (formerly Remuneration Committee). Under special circumstances, the Board of Directors may deviate from these guidelines. In the case of such deviation, the next AGM shall be informed of the reasons.

Husqvarna Group aims to offer competitive and performance based remuneration. The overall principles for remuneration to Group Management should be based on the position held, on individual and Group performance and be competitive in the country of employment. The overall remuneration package for Group Management comprises fixed salary, variable salary based on annual performance targets, long-term incentives and benefits such as pension and insurance benefits. Husqvarna aims to offer competitive and performance based remuneration. Variable remuneration may constitute a significant proportion of total remuneration, but could also be zero if the minimum level is not achieved or capped if the maximum level is attained. Variable salary to the President and Group Management is based on targets for the Group's and/or the respective divisions' operating income, net sales, cash conversion cycle and cost savings program. The remuneration is reviewed annually by January 1.

The notice period for termination is 12 months on part of the Company and 6 months on the part of the employee and in the event of notice of termination from the employer, the CEO and other members of Group Management are entitled to severance pay corresponding to 12 monthly salaries with deduction for any other income. Shorter period of notice and no right to severance pay might apply depending on position and country of employment for other members of Group Management. Members of Group Management shall be obliged not to compete with the Company during the notice period. Based on the circumstances in each case, a non-competition obligation with continued payment may also be applied during a maximum of 24 months from the end of the notice period.

Terms of employment for the President

The remuneration to the President and CEO comprises fixed salary, variable salary based on annual targets, long term incentive programs and pension and insurance benefits. The annual fixed salary to the President and CEO amounts to SEK 10,686t, effective January 1, 2019. The variable salary amounts to a maximum of 100% of the fixed salary (50% at Target level). The President and CEO participates in the Group's long term incentive programs for 2017, 2018 and 2019 (LTI 2017, LTI 2018 and LTI 2019). For information on these programs, see "Long term incentive programs (LTI)" below. The President and CEO is entitled to housing allowance.

Pension terms for the President

The retirement age for the President and CEO is 62. The President and CEO is covered by the collectively agreed ITP plan, the alternative rule of the plan, and the Husqvarna Executive Pension Plan. The Husqvarna Executive Pension Plan is a defined contribution plan. The employer contribution to the plan is equivalent to 40% of the fixed salary which also includes the contributions for the benefits of the ITP-plan, alternative ITP and any supplementary disability and survivor's pension.

Terms of employment for other members of Group Management

As with the President and CEO, other members of Group Management receive a remuneration package comprised of fixed salary, variable salary based on annual targets, long term incentive programs and pension and insurance benefits. The variable salary amounts to a maximum of 80% of the fixed salary. Members of Group Management participate in the Group's long term incentive programs, for information on these programs, see "Long term incentive programmes (LTI)" below.

Pension terms for other members of Group Management

The members of Group Management employed in Sweden (8 out of 9) are covered by the collectively agreed ITP plan, the alternative rule of the plan. These individuals are also covered by the Husqvarna Executive Pension Plan, which is a defined contribution plan. The employer contribution to the plan is equivalent to 35% of the pensionable salary which also includes contributions for the ITP plan, alternative ITP and any supplementary disability and survivor's pension. The pensionable salary is calculated on the basis of current fixed salary. Also last year's variable salary paid is pensionable for those who were covered by the plan before 2013. The pension age is 65 for the members of Group Management who are employed in Sweden. The member of Group Management that are not employed in Sweden are covered by the Group's company retirement plan in the country of employment (Germany).

Fees to the Board of Directors

The Annual General Meeting 2019 authorized fees to the Board of Directors amounting to SEK 6,290t (5,820) in total, whereof SEK 2,000t (1,900) to the Chairman and SEK 580t (545) to each of the other Board members, not employed by the company, including additional total of SEK 810t (650) as fees for Board Committee work. No consulting fees were paid to Board members. No board fees are paid to Board members who are also employed by the Group.

Fees to the Board of Directors

SEKt	2019			2018
	Fee	Fee for Board committee work	Total fee	
Tom Johnstone	2,000	80	2,080	2,020
Ulla Litzén	580	240	820	745
Katarina Martinson	580	135	715	650
Bertrand Neuschwander	580	80	660	605
Daniel Nodhäll	580	135	715	650
Lars Pettersson	580	140	720	605
Christine Robins	580	–	580	545
Kai Wärn	–	–	–	–
Soili Johansson	–	–	–	–
Carita Svärd	–	–	–	–
Anders Köhler ¹	–	–	–	–
Dan Byström ¹	–	–	–	–
Total	5,480	810	6,290	5,820

¹ Deputy

Board members are expected to engage themselves financially by acquiring Husqvarna shares, corresponding to approximately one year's board fee, within a period of five years. There are no agreements in place governing severance pay to Board member not employed by the Company.

Long term incentive programmes (LTI)

The purpose of the long term incentive programmes is to influence and reward performance long term, align shareholders' and managements' interest, attract and retain key employees and to some extent provide variable remuneration instead of fixed salary. The Board of Directors will annually evaluate if a long-term incentive program (e.g. share-based or share-price based) should be proposed to the AGM. There are three on-going programmes that are under vest; LTI 2017, LTI 2018 and LTI 2019.

LTI 2017, LTI 2018 and LTI 2019

The Annual General Meetings 2017, 2018 and 2019 authorized the implementation of the incentive programmes LTI 2017, LTI 2018 and LTI 2019, which comprise a maximum of 80 (LTI 2017)/ 100 (LTI 2018 and LTI 2019) participants. The vesting period for the programs is three years and the programs comprise of performance share awards. LTI 2017 also includes matching share awards. For LTI 2017, members of Group Management had to buy shares corresponding to 10% of his/her annual fixed salary (15% applies for the CEO), in order to participate in LTI 2017 while the purchase of shares (equivalent to 5–10% of its fixed annual salary) was voluntary for non-Group Management members. For each share which the employee participates with within the framework of the LTI 2017 program, the Company will grant one matching share award.

The grant of performance based share awards is linked to the participant's annual target salary (fixed salary plus variable salary at target level). In order to receive matching shares and performance based shares, the employee must stay employed three years after grant date and maintain the original investment.

The number of performance based share awards that vest and give right to Husqvarna Class B-shares further depend on the fulfilment of certain targets, determined by the Board of Directors, for operating margin (weight 40%), net sales (weight 30%) and capital efficiency (weight 30%) during the calendar years 2017–2019 regarding LTI 2017, 2018–2020 for LTI 2018 and 2019–2021 for LTI 2019. There are three performance levels set, with a linear progression of the number of performance based share awards from Entry to Stretch/maximum level for each program. Final result shall be the average of the three calendar years for each performance measure. The Entry level must have been reached in order for the performance based share awards to vest. The performance levels corresponds to the following number of B-shares:

Performance level	LTI 2017	LTI 2018 and LTI 2019
Entry	0 shares 25% (CEO 30%) of target salary/ share price ¹	10% of target salary / share price ¹ 33% (CEO 40%) of target salary/ share price ¹
Target	50% (CEO 60%) of target salary/ share price ¹	66% (CEO 80%) of target salary/ share price ¹
Stretch		

¹ SEK 74.93 for LTI 2017, SEK 86.00 for LTI 2018 and SEK 74.56 for LTI 2019 corresponds to the average closing price for Husqvarna B-shares on Nasdaq Stockholm during the month of February 2017 (LTI 2017), 2018 (LTI 2018) and 2019 (LTI 2019).

The value of the programmes is calculated based on the fair value of the share on grant date, as was SEK 82.90 for LTI 2017, SEK 76.70 for LTI 2018 and SEK 80.70 for LTI 2019, adjusted for expected dividend.

Each program comprises a maximum of the following number of shares 1,449,104 in LTI 2018 and 2,025,550 in LTI 2019.

LTI 2017 result

The performance period for LTI 2017 ended December 31, 2019. The following table shows the targets determined by the Board of Directors and the actual result, the average of the three calendar years 2017–2019 for each performance measure.

Performance measure	Weight	Target level			
		Entry	Target	Stretch	Result
Operating margin	40%	10.0%	10.4%	10.6%	8.9%
Net sales	30%	2.50%	3.75%	5.00%	5.05%
Capital efficiency	30%	25.5%	25.0%	24.6%	26.2%
Total result in percent of number of shares at maximum level Stretch					30.0%

The following table shows the number of matching and performance based shares to be awarded to participants by 25 May 2020, based on the result reported above and provided that the participant is still employed at that time and has maintained the personal investment in shares.

Participants	Share awards LTI 2017		
	Matching shares ¹	Performance shares	Total
President and CEO	16,889	35,432	52,321
Other members of Group Management	26,363	63,986	90,349
Other participants	56,667	182,984	239,651
Total	99,919	282,402	382,321

¹ Those participants in LTI 2017 who were located outside of Sweden at the time of grant of the share awards and whose salary was paid in a currency other than the Swedish krona will be covered by a certain "currency adjustment" to their personal investment in shares. This means that if the value of the Swedish krona (relative to such other currency) increases or decreases by more than 10% during the 3 year vesting period (i.e., the exchange rate at the date of grant of share awards compared with the exchange rate on the date the program is fully vested in May 2020), then the number of matching shares to which such participant is entitled will be decreased or increased, respectively, to account for such relative change. This currency adjustment provision is expected to have a marginal effect on the total cost of the LTI 2017.

Outstanding share awards

The table below outlines the number of granted share awards, forfeited, exercised and outstanding share awards:

Share awards	2019			2018		
	LTI 2019	LTI 2018	LTI 2017	LTI 2018	LTI 2017	LTI 2016
At Jan 1	–	1,559,525	1,165,904	–	1,426,028	1,839,311
Granted	2,099,569	–	–	1,775,483	–	–
Forfeited	–74,019	–110,421	–124,633	–215,958	–260,124	–1,292,628
Exercised	–	–	–	–	–	–
At Dec 31	2,025,550	1,449,104	1,041,271	1,559,525	1,165,904	546,683

The LTI programmes are expensed during the three years vesting period in line with the expected target fulfilment. During 2019, SEK 32m (5) has been charged to the income statement, whereof SEK 10m (3) refers to cost for employer social contributions. The total provision for employer social contributions in the balance sheet amounted to SEK 11m (12).

Note 5 Expenses by nature

SEKm	2019	2018
Costs for supplies and raw materials	19,419	19,194
Employee benefit expenses	7,147	7,048
Amortization/depreciation and impairment	2,089	1,930
Other	9,933	10,898
Total	38,588	39,070

Of the above costs, SEK 1,720m (1,581) refers to research and development.

Amortization/depreciation and impairment for the year are reported on the following lines in the income statement:

SEKm	Property, plant and equipment		Intangible assets		Right of use assets	
	2019	2018	2019	2018	2019	2018
Cost of goods sold	915	1,284	548	449	96	–
Selling expenses	63	63	–	–	298	–
Administrative expenses	42	43	74	91	53	–
Total	1,020	1,390	622	540	447	–

Impairment for property, plant and equipment was recorded within cost of goods sold by SEK 10m (442) and within administrative expenses by SEK 2m (2).

Impairment for intangible assets is recognized within cost of goods sold by SEK 27m (31).

Note 6 Exchange rate gains and losses in cost of goods sold

SEKm	2019	2018
Exchange rate gains and losses in cost of goods sold	–17	–245
Total	–17	–245

Cost of goods sold includes SEK 11m (83) of foreign exchange hedging result previously reported in other comprehensive income.

Information related to the accounting of cash flow hedges is presented in note 1.

Note 7 Other operating income and operating expenses

SEKm	2019	2018
Other operating income		
Gain on divestment/liquidation of:		
Property, plant and equipment	203	25
Operations/subsidiaries	–	38
Total	203	63
Other operating expenses		
Loss on divestment/liquidation of:		
Property, plant and equipment	–6	–8
Total	–6	–8

Note 8 Fees to auditors

SEKm	2019	2018
EY		
Audit fees for the annual audit engagement	22	22
Audit fees not included in the annual audit engagement	2	2
Tax advice	1	2
Other services	1	0
Total fees to EY	26	26
Audit fees to other auditors	1	1
Total fees to auditors	27	27

Note 9 Financial income and expenses

SEKm	2019	2018
Financial income		
Interest income on deposits measured at amortized cost	17	20
Exchange rate differences		
– on borrowings	–	–286
– on derivatives held for trading	–	330
Other financial income	1	8
Total financial income	18	72
Financial expenses		
Interest expenses		
– on borrowings	–119	–164
– on cashflow hedges, interest rate derivatives	–24	–33
– on derivatives held for trading	–269	–270
– on lease liabilities ¹	–49	–
– net on pension assets/liabilities	–38	–31
Exchange rate differences		
– on borrowings	–162	–
– on derivatives held for trading	132	–
Other financial expenses	–57	–83
Total financial expenses	–586	–581
Financial income and expenses, net	–568	–509

¹ Due to the adoption of "IFRS 16 Leases" 1 January 2019, interest expense on lease liabilities is recorded under financial expenses.

Note 10 Tax

SEKm	2019	2018
Current tax on income for the period	–463	–635
Deferred tax	–131	287
Total	–594	–348

Theoretical and actual tax rates

	2019		2018	
	Tax, %	Result	Tax, %	Result
Income before taxes	–	3,122	–	1,561
Theoretical tax rate	–21.8	–681	–21.1	–329
Non-taxable items	2.5	77	5.3	83
Items not deductible for tax purposes	–1.6	–50	–3.6	–57
Change in valuation of deferred tax	3.0	95	–1.1	–17
Utilization of previously unrecognized tax losses	0.1	4	0.3	5
Effect of tax rate change	–0.1	–4	–0.1	–2
Withholding tax	–0.5	–17	–1.6	–25
Other	–0.6	–18	–0.4	–6
Actual tax rate	–19.0	–594	–22.3	–348

The theoretical tax rate for the Group is calculated on the basis of the weighted total income before tax per country, multiplied by the local statutory tax rate.

Tax loss carry-forwards

As of December 31, 2019, the Group has tax loss carry-forwards of SEK 1,004m (1,483), whereof SEK 146m (185) has not been included in computation of deferred tax assets. The tax loss carry-forwards will expire as follows (gross amounts):

SEKm	2019	2018
Within a year	0	0
1–5 year	64	82
> 5 year	287	535
Without time limit	653	866
Total	1,004	1,483

Changes in deferred taxes

SEKm	Opening balance, Jan 1, 2019	Reclassification	Recognized in income statement	Recognized in comprehensive income statement	Exchange rate differences	Acquired and divested assets / subsidiaries	Closing balance, Dec 31, 2019
Non-current assets	–1,410	–	–245	–	–25	–	–1,680
Inventories	252	–	–60	–	6	–	198
Current receivables	63	–	–4	–	0	–	59
Provision for pensions and similar commitments	358	–	95	86	4	–	543
Other provisions	223	–	–51	–	8	–	180
Financial and operating liabilities	50	–	1	166	10	–	227
Other items ¹	153	–110	77	–	–25	–	95
Tax losses carried forward	269	–	57	–	10	–	336
Deferred tax assets and liabilities, net	–42	–110	–130	252	–12	–	–42

¹ The opening balance includes SEK –167m related to IFRIC 23 restatement, for further information refer to note 28.

SEKm	Opening balance, Jan 1, 2018	Recognized in income statement	Recognized in comprehensive income statement	Exchange rate differences	Acquired and divested assets / subsidiaries	Closing balance, Dec 31, 2018
Non-current assets	-1,518	170	–	-62	–	-1,410
Inventories	164	90	–	-2	–	252
Current receivables	96	-31	–	-2	–	63
Provision for pensions and similar commitments	355	-34	26	11	–	358
Other provisions	128	90	–	5	–	223
Financial and operating liabilities	104	-252	192	6	–	50
Other items	-291	272	–	5	–	-14
Tax losses carried forward	268	-18	–	19	–	269
Deferred tax assets and liabilities, net	-694	287	218	-20	–	-209

Tax items recognized in Other comprehensive income amounts to SEK 86m (26) for items related to remeasurements on defined benefit pension plans, SEK 23m (-41) for cash flow hedges and SEK 143m (233) for net investment hedge.

Deferred tax assets and liabilities

SEKm	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Non-current assets	117	220	1,797	1,630	-1,680	-1,410
Inventories	326	395	128	143	198	252
Current receivables	83	76	24	17	59	59
Provisions for pensions and similar commitments	543	358	0	0	543	358
Other provisions	236	280	56	57	180	223
Financial and operating liabilities	227	107	0	57	227	50
Other items	176	161	81	171	95	-10
Tax losses carried forward	336	269	–	–	336	269
Deferred tax assets and liabilities	2,044	1,866	2,086	2,075	-42	-209
Set-off of tax	-354	-281	-354	-281	–	–
Deferred tax assets and liabilities, net ¹	1,690	1,585	1,732	1,794	-42	-209

¹ Deferred tax assets amounted to SEK 1,690m (1,585), whereof SEK 187m (298) is expected to be utilized within 12 months. Deferred tax liabilities amounted to SEK 1,732m (1,795), whereof SEK 31m (20) are due within 12 months.

No deferred tax liability is recognised on temporary differences relating to the distributable earnings of subsidiaries as the parent company is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Note 11 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held in a third party swap agreement.

	2019	2018
Profit attributable to equity holders of the Parent Company (SEKm)	2,527	1,212
Weighted average numbers of ordinary shares outstanding (millions)	572.0	571.5
Earnings per share before dilution (SEK)	4.42	2.12

Diluted

Diluted earnings per share is calculated by adjusting the weighted average numbers of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's long term incentive plan contains share savings program which have a dilutive potential.

	2019	2018
Profit attributable to equity holders of the Parent Company (SEKm)	2,527	1,212
Weighted average numbers of ordinary shares outstanding (millions)	572.0	571.5
Adjusted for:		
– share savings program (millions)	0.2	0.8
Diluted weighted average numbers of ordinary shares outstanding (millions)	572.2	572.3
Earnings per share after dilution (SEK)	4.42	2.12

Note 12 Property, plant and equipment

Notes – Group

SEKm	Land and land improvements	Buildings and leasehold improvements	Machinery and technical installations	Other equipment	Construction in progress and advances	Total
2019						
Opening accumulated acquisition value	403	3,589	12,591	2,227	1,387	20,197
Acquired companies	–	–	–	–	–	–
Investments	12	54	514	223	774	1,577
Sold, scrapped	–11	–426	–1,288	–706	–9	–2,440
Reclassification	20	196	860	–158	–918	–
Exchange rate differences	13	135	412	74	35	669
Closing accumulated acquisition value	437	3,548	13,089	1,660	1,269	20,003
Opening accumulated depreciation and impairment	119	2,154	9,963	1,868	29	14,133
Depreciation ¹	13	130	722	144	–	1,009
Impairment ¹	–	–	12	–	–	12
Sold, scrapped	–4	–406	–1,286	–708	–	–2,404
Reclassification	–	20	68	–59	–29	–
Exchange rate differences	4	87	299	67	2	459
Closing accumulated depreciation and impairment	132	1,985	9,778	1,312	2	13,209
Closing balance, December 31, 2019	305	1,563	3,311	348	1,267	6,794
2018						
Opening accumulated acquisition value	389	3,765	11,460	2,003	1,026	18,643
Acquired companies	–	20	8	8	2	38
Investments	–	57	279	122	1,084	1,542
Sold, scrapped	–7	–68	–436	–68	–8	–587
Reclassification	–	39	650	53	–746	–4
Exchange rate differences	21	203	630	109	29	992
Closing accumulated acquisition value	403	4,016	12,591	2,227	1,387	20,624
Reclassified to right-of-use assets ²	–	–427	–	–	–	–427
Closing accumulated acquisition value after reclassification	403	3,589	12,591	2,227	1,387	20,197
Opening accumulated depreciation and impairment	106	2,126	8,932	1,673	–	12,837
Depreciation ¹	12	136	647	151	–	946
Impairment ¹	0	116	289	11	28	444
Sold, scrapped	–4	–39	–418	–66	–	–527
Reclassification	–	–	–1	1	–	–
Exchange rate differences	5	122	514	98	1	740
Closing accumulated depreciation and impairment	119	2,461	9,963	1,868	29	14,440
Reclassified to right-of-use assets ²	–	–307	–	–	–	–307
Closing accumulated depreciation after reclassification	119	2,154	9,963	1,868	29	14,133
Closing balance, December 31, 2018	284	1,555	2,628	359	1,358	6,184
Reclassified to right-of-use assets, net ²	–	–120	–	–	–	–120
Closing balance after reclassification	284	1,435	2,628	359	1,358	6,064

¹ For information of where in the income statement the depreciation and impairment is reported, see note 5.

² Previous finance leases which were included in tangible fixed assets 2018 are in 2019 reported as comparative information for right of use assets. For further information on the transition to IFRS 16 refer to note 28.

Note 13 Right of use assets

SEKm	Land and buildings	Forklifts and machinery	Cars and other vehicles	Other	Total
2019					
Opening accumulated acquisition value ¹	1,330	90	177	25	1,622
New leases	157	17	107	–	281
Modifications Remeasurements	69	–	1	1	72
Depreciation	–296	–40	–108	–3	–447
Impairment	–	–	–	–	–
Reclassification	–	–	–	–	–
Exchange rate difference	46	4	6	2	58
Closing balance, December 31, 2019	1,306	71	183	25	1,585

¹ In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as “finance leases” under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group’s borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 28.

The total cash outflow for leases in 2019 was SEK 447m. As per December 31 2019, the Group had extension options amounting to approximately SEK 45m.

During the year the Group have had a net gain arising from a sale and leaseback transaction of SEK 195m. The total cash flow effect from the transaction is SEK 282m and the leaseback agreement extends over the coming 3.75 years.

Note 14 Intangible assets

Notes – Group

SEKm	Goodwill	Brands	Product development	Other	Total
2019					
Opening accumulated acquisition value	8,002	3,798	3,569	2,461	17,830
Acquired companies	–	–	–	–	–
Investments ¹	30	–	521	134	685
Sold, scrapped	–5	–	–88	–12	–104
Reclassifications	–	–	–	6	6
Exchange rate differences	242	72	40	25	380
Closing accumulated acquisition value	8,269	3,870	4,042	2,615	18,796
Opening accumulated amortization and impairment	897	376	2,521	1,397	5,191
Amortization	–	17	336	241	594
Impairment	–	–	27	–	27
Sold, scrapped	–5	–	–88	–9	–102
Exchange rate differences	39	13	52	15	120
Closing accumulated amortizations and impairment	932	406	2,848	1,644	5,830
Closing balance, December 31, 2019	7,338	3,464	1,194	971	12,967
2018					
Opening accumulated acquisition value	7,457	3,647	2,926	2,185	16,215
Acquired companies	115	–	84	31	230
Investments	–	–	493	200	693
Sold, scrapped	–	–	–8	–2	–10
Reclassification	0	0	0	5	5
Exchange rate differences	430	151	74	42	697
Closing accumulated acquisition value	8,002	3,798	3,569	2,461	17,830
Opening accumulated amortizations and impairment	822	345	2,162	1,129	4,458
Depreciation	–	24	265	220	509
Impairment	–	–	31	–	31
Sold, scrapped	–	–	–8	–2	–10
Exchange rate differences	75	7	71	50	203
Closing accumulated depreciation and impairment	897	376	2,521	1,397	5,191
Closing balance, December 31, 2018	7,105	3,422	1,048	1,064	12,639

¹ Investments in Goodwill are included in the line "Acquisitions and divestments of subsidiaries/operations and divestments of property, plant and equipment" in the consolidated cash flow statement.

For information of where in the income statement the depreciation and impairment is reported, see note 5.

The values of intangible assets with indefinite life are tested for impairment annually, or more frequently if impairment indicators are identified. An impairment loss is recognized with the amount by which the assets' net carrying amount exceeds its recoverable amount. The recoverable amount of a cash generating unit is determined based on estimates of value in use. Value in use is measured as expected future discounted cash flow before tax.

Future discounted cash flows before tax are based on by Group Management, approved five-year forecasts for each cash generating unit. Key assumptions for forecasting are the expected growth, margins and discount rates. Cash flows beyond the five year forecast have been extrapolated using an estimated growth rate of 2% (2) for all cash generating units.

Forecasted margin is partly based on previous results and partly on the expected market development. The pre-tax discount rate is based on the risk-free interest, market premium, beta value, capital structure and tax rate. External sources have been used as much as possible when determining these parameters, but the discount rate is still largely dependent on management's own assumptions. A common discount rate is used for all cash generating units since Group Treasury is centrally responsible for the handling of financing and capital structure. A pre-tax discount rate of 11% (11) has been used for 2019.

The impairment test have been performed on the three divisions that will continue post January 1, 2020 because the Consumer Brands Division have been dissolved as of January 1, 2019 and because the impairment test is based on future discounted cash flows. For allocation of the Consumer Brands Division, refer to the section "Allocation of the Consumer Brands Division".

During 2019, value in use has exceeded the net book value for all cash-generating units, and accordingly, no impairment has been recognized.

Intangible assets with indefinite useful lives per cash generating unit (division):

SEKm	2019	2018
Husqvarna	3,674	3,560
Gardena ¹	4,789	4,695
Construction	2,214	2,154
Total Group	10,677	10,409

¹ Whereof SEK 3,369m (3,304) relates to the net book value of the Gardena brand, which Husqvarna Group has assigned indefinite useful life. This is because the brand has a strong position among consumers and Husqvarna Group intends to maintain and further develop the brand.

The following two sensitivity analysis have been made of the estimated value in use:

- 10% higher discount rate
- 10% decreased cash flow

None of these adjusted assumptions would result in an impairment loss of intangible assets with indefinite useful lives, in any of the cash generating units.

Under the current business environment, management do not believe that any reasonably possible change in discount rate or in any of the other key assumptions on which the cash generating units' recover-

able amounts are based upon would result in the net book value amount exceeding the recoverable amount.

During 2019, impairment of approximately SEK 27m was done regarding Product and Development within the dissolved Consumer Brand division as well as a Battery-project within Husqvarna and Gardena division.

Note 15 Investments in associated companies

SEKm	2019	2018
Aggregate carrying amount of individually immaterial associates	33	–
Aggregate carrying amounts of the Group's share of:	–	–
Profit from continuing operations	–	–
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	33	–

Note 16 Other non-current assets

SEKm	2019	2018
Long-term holdings in securities	395	381
Net pension assets	195	158
Other long-term receivables	79	53
Total	669	592

Pension assets refer to pension plans with a net surplus of SEK 195m (158). For further information refer to note 21.

Note 17 Inventories

SEKm	2019	2018
Finished products	7,835	8,111
Supplies including raw materials	2,601	2,592
Work in progress	422	364
Total	10,858	11,067

The cost of inventories recognized as expense and included in cost of goods sold amounted to SEK 25,174 m (25,050).

Write down of inventories expensed during the year amount to SEK 102m (392), which is included in cost of goods sold. Write down reversed during the year amount to SEK 255m (55)

Inventories valued to net realizable value amounted to SEK 478m (421).

Note 18 Other current assets

SEKm	2019	2018
Value added tax	382	372
Miscellaneous short-term receivables	203	206
Prepaid rents and leases	19	18
Prepaid insurance premiums	21	20
Prepaid supplies	51	68
Other prepaid expenses	335	322
Total	1,011	1,006

Note 19 Equity

Share capital

The share capital in Husqvarna AB consists of class A-shares and class B-shares. A class A-share entitles the holder to one vote and a class B-share to one-tenth of a vote. All shares entitle the holder to the same proportion of assets and earnings, and carry equal rights in terms of dividends.

Other paid-in capital

Other paid-in capital consists of share-premium reserve following the rights issue in 2009.

Other reserves

The translation reserve includes all exchange-rate differences that arise from the translation of the financial statements of foreign operations that have compiled their reports in a currency other than that in which the consolidated financial statements are presented (SEK). The translation reserve also include net investments hedges.

The hedging reserve includes the effective portion of the accumulated net change in the fair value, related to the hedged risk, of cash-flow hedging instruments attributable to hedged items that have not yet occurred.

Retained earnings

Retained earnings consist not only of accrued profits but also of the change in pension liability attributable to remeasurements of defined-benefit plans recognized in "Total other comprehensive income". Regarding changes in actuarial assumptions, see also note 21. The proposed dividend for 2019 is SEK 2.25 (2.25).

Non-controlling interests

Non-controlling interests refer to the share of equity that belongs to external interests without a controlling influence in certain subsidiaries within the Group.

Share capital

SEKm	
On December 31, 2019, the share capital comprised:	
112,015,629 Class A-shares, par value SEK 2	224
464,328,149 Class B-shares, par value SEK 2	929
Total	1,153
On December 31, 2018, the share capital comprised:	
112,437,551 Class A-shares, par value SEK 2	225
463,906,227 Class B-shares, par value SEK 2	928
Total	1,153

Number of shares	Treasury shares	Outstanding shares	Total
Shares, December 31, 2018			
Class A-shares	–	112,437,551	112,437,551
Class B-shares	4,670,416	459,235,811	463,906,227
Long term incentive program 2016			
Class A-shares	–	–	–
Class B-shares	–529,252	529,252	–
Conversion of shares			
Class A-shares	–	–421,922	–421,922
Class B-shares	–	421,922	421,922
Shares, December 31, 2019			
Class A-shares	–	112,015,629	112,015,629
Class B-shares	4,141,164	460,186,985	464,328,149

Other reserves

SEKm	Cash flow hedges	Currency translation reserve	Net investment hedge	Total other reserves
Opening balance, January 1, 2019	69	1,176	-794	451
Result arising during the year	12	–	-668	-656
Tax on result arising during the year	-2	–	143	141
Reclassification adjustments to the income statement	-108	–	–	-108
Tax on reclassification adjustments to the income statement	19	–	–	19
Currency translation difference	–	916	–	916
Closing balance, December 31, 2019	-10	2,092	-1,319	763

SEKm	Cash flow hedges	Currency translation reserve	Net investment hedge	Total other reserves
Opening balance, January 1, 2018	-76	-30	32	-74
Result arising during the year	85	–	-1,058	-973
Tax on result arising during the year	-19	–	232	213
Reclassification adjustments to the income statement	95	–	–	95
Tax on reclassification adjustments to the income statement	-16	–	–	-16
Currency translation difference	–	1,206	–	1,206
Closing balance, December 31, 2018	69	1,176	-794	451

Note 20 Financial risk management and financial instruments

FINANCIAL RISK MANAGEMENT

Financial risk management for Husqvarna Group entities is undertaken in accordance with the Group Financial Policy. Described below are the principles of financial risk management applicable to Husqvarna Group. Husqvarna Group is exposed to a number of risks relating to financial instruments including, for example, liquid funds, trade receivables and other receivables, trade payables and other liabilities, borrowings, and derivative instruments. The primary risks associated with these instruments are:

- Financing risks in relation to the Group's capital requirements.
- Interest rate risks on liquid funds and borrowings.
- Foreign exchange risks on export and import flows plus earnings and net investments in foreign operations.
- Commodity price risks affecting expenditure on raw materials and components for goods produced.
- Credit risks relating to financial and commercial activities.

The Board of Directors of Husqvarna Group has adopted a Group Financial Policy, as well as a Group Credit Policy to regulate the management and control of these risks. These risks are to be managed according to the limitations stated in the Financial Policy. The Financial Policy also describes the management of risks relating to pension fund assets. The purpose of the policy is to have enough funding available to minimize the Group's cost of capital and to achieve an effective management of the Group's financial risks.

The management of financial risks has largely been centralized to Husqvarna Group Treasury, where measurement and control of financial risks are performed on a daily basis by a separate risk control function. Furthermore, Husqvarna Group's policies include guidelines for managing operating risk relating to financial instruments, e.g. through the clear assignment of responsibilities and the allocation of powers of attorney.

FINANCING RISK

Financing risk refers to the risk that the financing of the Group's capital requirements and the refinancing of existing loans could become more difficult or more costly. This risk can be decreased by ensuring that maturities are evenly distributed over time, and that total short-term borrowings do not exceed available liquidity. Disregarding seasonal variations, net debt shall be long-term, according to the Financial Policy. The Group's goals for long-term borrowings include an average time to maturity of at least two years, and an even distribution of maturities. A maximum of SEK 3.0bn in borrowings, originally long-term, is

normally allowed to mature in the next 12-month period. When Husqvarna Group assesses its refinancing risk, the maturity profile is adjusted for available unutilized committed credit facilities.

In addition, seasonality in the cash flow is an important factor in the assessment of the financing risk. Consequently, Husqvarna Group always takes into account the fact that financial planning must include future seasonal fluctuations.

The average adjusted time to maturity for the Group's financing was 2.6 years (3.4) at the end of 2019.

Capital structure

Husqvarna Group's ambition is to have a capital structure where seasonally adjusted net debt in proportion to earnings before interest, tax, depreciations and amortizations (EBITDA) is not to exceed 2.5 in the long-term. This ambition for the capital structure may be adjusted in the event of changes to the macroeconomic situation, or allowed to deviate for a shorter period of time due to for example acquisitions. Dividend shall normally exceed 40% of income for the year.

SEKm	2019	2018
Net pension liabilities	2,427	1,943
Other interest-bearing liabilities ¹	11,786	10,013
Less: liquid funds and other interest-bearing assets	-2,898	-2,081
Net debt	11,315	9,875
Net debt, excluding net pension liabilities	8,888	7,932
EBITDA	5,779	4,000
Net debt/EBITDA	2.00	2.16
Total equity	17,283	16,009
Total assets	41,981	38,607
Equity/assets ratio	41%	41%

¹ Lease liabilities of SEK 1,761m is included within other interest-bearing liabilities, the lease liabilities have increased with SEK 1,502m because of the adoption of IFRS 16. For further information refer to note 1 and 28.

Liquid funds

Liquid funds consist of cash and cash equivalent and other short-term deposits including derivative assets at fair market value. Husqvarna Group's goal is that the level of liquid funds, including unutilized committed credit facilities, shall equal at least 2.5% of rolling 12-month sales. At year-end, this ratio was 17.8 % (16.3). In addition, the Group shall have sufficient liquid resources to finance the expected seasonal build-up in working capital during the next 12 months.

Borrowings

The financing of Husqvarna Group is managed centrally by Group Treasury in order to ensure efficiency and risk control. Debt is primarily raised at Parent Company level and transferred to subsidiaries as internal loans or capital injections. In this process, various derivatives are used to convert the funds to the required currency. Financing is also undertaken locally, mostly in countries in which there are legal restrictions preventing financing through Group companies. The major part of the Group's financing is currently conducted through

a Swedish Medium Term Note (MTN) program, other bond financing and bilateral loan agreements. In addition, the Group has an unutilized SEK 5bn committed revolving credit facility maturing in 2021. The facility is unutilized as of December 31, 2019. Due to the nature of its business, the Group has major seasonal variations in its funding needs. These variations have during 2019 been managed mainly by utilizing the Group's commercial paper (CP) program and short-term bank loans.

At year-end 2019, the Group's total interest-bearing liabilities, excluding pension liability, amounted to SEK 11,786m (10,013), of which SEK 7,047m (6,038) referred to long-term loans. During the year, the group issued bonds totalling SEK 1.0bn with five years maturity.

Husqvarna Group has, as mentioned, substantial seasonal variation in its borrowings. The seasonal peak of the indebtedness normally implies additional borrowings of SEK 2.5–3.5bn in excess of year-end borrowings, taking dividend into account.

Husqvarna Group has not breached any conditions in external loan agreements during the year.

Future undiscounted cashflows of loans and other financial liabilities as of December 31, 2019¹

SEKm	2020	2021	2022	2023	2024	>2025	Total
Lease liabilities	-435	-342	-234	-167	-117	-253	-1,548
Bonds, bank loans and other loans	-2,753	-1,234	-1,301	-1,558	-1,771	-410	-9,027
Derivative liabilities, interest rate ²	-12	-11	-12	-10	-15	-	-60
Derivative liabilities, foreign exchange ²	-250	-	-	-	-	-	-250
Trade payables	-4,099	-	-	-	-	-	-4,099
Total financial liabilities	-7,549	-1,587	-1,547	-1,735	-1,903	-663	-14,984

¹ Please note that the table includes the forecast future nominal interest payment and, thus, does not correspond to the net book value in the balance sheet.

² For more detailed information on derivative contracts, see table under "Credit risk in financial activities" in this note.

Borrowings

SEKm	2019		2018	
	Total borrowings	Facility amount	Total borrowings	Facility amount
Medium Term Note Program	5,445	8,000	4,946	8,000
Other bond loans	93	-	89	-
Committed revolving credit facility	-	5,000	-	5,000
Committed credit facility	1,192	-	1,000	-
Long-term bank loans	300	-	686	-
Lease liabilities ¹	1,761	-	207	-
Commercial papers	2,100	7,000	925	7,000
Other short-term loans	611	-	1,908	-
Derivative liabilities	284	-	252	-
Total	11,786	20,000	10,013	20,000

¹ Most of the previous operating leases have been recognised from January 1, 2019 as right of use assets and lease liabilities, because of the adoption of IFRS 16. Previous finance leases have been included as comparative information for right of use assets and lease liabilities. For further information on the transition to IFRS 16 refer to note 1 and 28.

Market programs

Husqvarna Group has a MTN program, denominated in SEK, to issue long-term debt in the domestic capital market. The total amount of the program is SEK 8.0bn. In addition, Husqvarna Group has a Swedish CP program. The total amount of the program is SEK 7.0bn. The table Borrowings shows outstanding amounts under these two programs.

The currency composition of Husqvarna Group's borrowings is dependent upon the currency distribution of the Group's assets. Currency derivatives are used to obtain the preferred currency distribution.

Net debt – currency composition

SEKm	2019		2018	
	Net debt excl. currency swaps	Net debt incl. currency swaps	Net debt excl. currency swaps	Net debt incl. currency swaps
USD	1,201	10,635	550	9,646
SEK	9,357	-4,679	9,136	-3,439
EUR	1,561	3,535	1,041	2,602
JPY	207	439	-48	146
CZK	-55	396	-35	341
GBP	-184	307	-173	282
RUB	-26	101	-34	41
CNY	-343	-44	-304	-25
CHF	42	2	-22	14
Other	-445	623	-236	267
Total	11,315	11,315	9,875	9,875

INTEREST RATE RISK

Interest rate risk refers to the adverse effects of changes in market interest rates on the Group's net income. The main factor determining this risk is the interest-fixing period.

Interest rate risk in liquid funds

The holding periods of investments are mainly short-term. The majority of investments are undertaken with maturities of between 0 and 3 months. The fixed interest term for these current investments was 18 days (20) at the end of 2019. A downward shift in the yield curve of one percentage point would reduce the Group's interest income by approximately SEK 19m (13) and the Group's equity by SEK 15m (10).

Interest-rate risk in borrowings

The Financial Policy states that the benchmark for the long-term loan portfolio is an average fixed interest term of 6 months. Group Treasury can choose to deviate from this benchmark on the basis of a risk mandate established by the Board of Directors. However, the maximum average fixed interest term is 3 years. Derivatives, such as interest rate swap agreements, are used to manage the interest rate risk by changing

the interest from fixed to floating or vice versa. The average fixed interest term for the non-seasonal debt was 1.7 (3.0) years at year-end. On the basis of volumes and interest fixings at the end of 2019, a one-percentage point shift in interest rates would impact the Group's interest expenses by approximately SEK +/- 25m (6) before tax. Interest rates with different maturities and different currencies may not change uniformly. This calculation is based on a parallel shift of all yield curves simultaneously by one percentage point. The Group has seasonal debt for which the interest risk is not calculated due to its short-term nature. As per December 31, 2019 the average interest rate in the total loan portfolio was 3.6 % (5.0). At year-end, Husqvarna Group had outstanding interest rate derivatives with a nominal amount of SEK 5,296m (5,270) hedging the interest rate risk.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the adverse effects of changes in foreign currency exchange rates on Husqvarna Group's income and equity. In order to manage such effects, the Group covers these risks within the framework of the Financial Policy. The Group's overall currency exposure is managed centrally. The major currencies to which Husqvarna Group is exposed are EUR, USD, CAD and AUD.

Transaction exposure from commercial flows

The Financial Policy stipulates hedging of forecasted sales and purchases in foreign currencies, taken into consideration the price fixing periods and the competitive environment. Normally, 75–100% of the invoiced and forecasted flows are hedged up to and including 6 months, while forecasted flows for 7–12 months are hedged between 50–75%. Group subsidiaries primarily cover their risks in commercial currency flows through Group Treasury. Group Treasury assumes the currency risks and covers such risks externally by utilizing currency derivatives.

The table below shows the forecasted transaction flows (imports and exports) for 2020, hedges at year-end 2019 and comparative amounts for the previous year.

Commercial flows

Currency SEKm	2019		2018	
	2020 Fore- casted flows	Total hedge amount	2019 Fore- casted flows	Total hedge amount
EUR	4,101	–3,211	4,988	–3,488
CAD	991	–676	1,246	–887
AUD	590	–432	575	–377
RUB	559	–397	457	–334
NOK	552	–380	575	–420
CHF	537	–482	492	–418
Other	290	–61	–56	59
DKK	522	–380	508	–375
USD	–2,233	1,619	–3,255	2,471
SEK	–5,909	4,400	–5,530	3,769

The hedging effect on operating income amounted to SEK –83m (–204) during 2019. At year-end, the unrealized exchange rate result on forward contracts, all maturing in 2020, amounted to SEK 10m (140).

Translation exposure on consolidation of entities outside Sweden

Changes in exchange rates also affect the Group's income when translating income statements of foreign subsidiaries into SEK. Husqvarna Group does not hedge such exposures. The translation exposure arising from income statements of foreign subsidiaries is included in the sensitivity analysis below.

Exposure from net investments in foreign operations

The net assets and liabilities in foreign subsidiaries constitute a net investment in foreign operations, which generates a translation difference in connection with consolidation. In order to limit negative effects on Group equity resulting from translation differences, part of the Group's net investments in foreign operations is hedged with foreign exchange derivatives. A decline in value of a net investment is offset by exchange rate gains on foreign exchange derivative contracts. The relationship between the net investment and derivative is reviewed and adjusted monthly.

Foreign exchange sensitivity from transaction and translation exposure

Husqvarna Group is particularly exposed to changes in the exchange rates of EUR and USD. Furthermore, the Group has exposures against a number of other currencies. Using a static calculation and disregarding any effects from hedges, a 10% increase or decrease in the value of all currencies against SEK would affect the Group's result before financial items and tax by approximately SEK +/- 765m (570) for one year. A 10% increase of USD would affect the Group's result with SEK –190m (–385) and a corresponding decrease of EUR with SEK 500m (550). This assumes the same distribution of earnings and costs as in 2019 and does not include any dynamic effects, such as changes in competitiveness or consumer behaviour arising from such changes in exchange rates. It is also worth noting that, due to the seasonality in Husqvarna Group's sales, these flows and results are not distributed evenly throughout the calendar year. For more information on risks related to currency exposure, see Risk Management section.

HEDGE ACCOUNTING

Husqvarna Group applies hedge accounting for hedging of interest rate risk, forecasted commercial cash flows and, when applicable, hedging of net investments in foreign operations. The hedge relationships are expected to be highly effective and no material sources of hedge ineffectiveness are expected to occur.

Hedge accounting of interest rate risk

The total market value for hedges of interest rate risk amounted to SEK –59m as of December 31, 2019 of which SEK –36m is reported in the hedge reserve. Assuming an unchanged market interest rate, the effects on income after financial items for 2020 would be SEK –1m for Q1, SEK 2m for Q2, SEK 8m for Q3 and SEK 2m for Q4. During the year no ineffectiveness has occurred in the hedging of interest rate risk.

The table "Future undiscounted cashflows of loans and other financial liabilities as of December 31, 2019" shows the future cashflows of the interest rate hedges. The cashflows during 2020, assuming unchanged market interest rates, would be SEK –19m for Q1, SEK 3m for Q2, SEK 2m for Q3 and SEK 2m for Q4.

Hedge accounting of foreign exchange risk

The total market value for hedges of commercial flows amounted to SEK 2m as of December 31, 2019 of which SEK 23m is reported in the hedge reserve. Assuming an unchanged exchange rate, the effects on income after financial items for 2020 would be SEK 2m for Q1, SEK 11m for Q2, SEK 8m for Q3 and SEK 2m for Q4.

As of December 31, 2019, USD 1,625m of net investments in foreign operations were hedged. The total market value of derivatives for net investment hedging amounted to SEK 407m of which SEK 458m is reported in the hedge reserve. During the year no ineffectiveness has occurred in the hedging of currency risk.

Derivatives designated as hedging instruments

2019 SEKm	Nominal amount	Maturity	Average hedge rate
Net investment hedges			
Derivatives in net investments hedges of foreign operations	15,179	2020	9.57
Cash flow hedges			
Derivatives in cash flow hedge of foreign currency risk	16,674	2020	n.a
– of which USD exposure against SEK	2,058	2020	9.40
– of which EUR exposure against SEK	7,844	2020	10.69
Derivatives in cash flow hedge of interest rate risk	3,796	2020–2024	0.74

Impact of hedging instruments on the financial statement

2019 SEKm	Nominal amount	Carrying amount	Line item in the financial statement	Change in fair value used for measuring ineffectiveness for the period	Cash flow hedge reserve
Foreign exchange forward contracts	8,373	127	Current assets	–54	122
Foreign exchange forward contracts	8,301	103	Current liabilities	–34	99
Interest rate swap agreements	3,796	54	Non Current liabilities	–14	36
Forecasted cash flows from sales/purchases	16,674	n.a	n.a	n.a	n.a
Forecasted interest cash flows from floating rate borrowings	–60	n.a	n.a	n.a	n.a

COMMODITY PRICE RISK

Commodity price risk is the risk of increase in the cost of direct and indirect materials should underlying commodity prices rise on the global markets. Husqvarna Group is exposed to fluctuations in commodity prices through agreements with suppliers, whereby the price is linked to the raw material price on the world market. This exposure can be divided into direct commodity exposure, which refers to pure commodity exposure, and indirect commodity exposure, which is defined as exposure arising from only a portion of a component. Commodity price risk is managed through contracts with the suppliers rather than through the use of derivatives. A 10% rise or fall in the price of steel used in Husqvarna Group's products will affect the Group's results before financial items and tax by approximately SEK +/- 160m (200), everything else being equal. The same effect on the price of aluminium would impact the results by SEK +/- 45 (50) and a 10% change in the price of plastics would give an effect on results of SEK +/- 150m (110).

CREDIT RISK

A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are written off when there is no reasonable expectation of recovery. Husqvarna Group identifies credit risk in trade receivables, financial activities and non current assets.

Credit risk in trade receivables

Husqvarna Group sells to a substantial number of customers including dealers, retailers and professional users. Sales are made on the basis of normal delivery and payment terms. Customer financing solutions are normally arranged by third parties. The Credit Policy of the Group ensures that the management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts. The Board of Directors decides on customer credit limits exceeding SEK 100m. Husqvarna Group uses an external provider for classification of the creditworthiness of its customers. The classification has different levels, from low risk to high risk. In the table below, trade receivables have been divided into three different intervals.

SEKm	2019	2018
Low to moderate risk	2,197	2,119
Medium risk to elevated risk	1,230	1,294
High risk	193	200
Total	3,620	3,613

As of December 31, 2019 net trade receivables, after provisions for bad debt, amounted to SEK 3,620m (3,613), which consequently equals the maximum exposure to losses in trade receivables. Hence, the book value equals the fair market value of the receivables. The size of the credit portfolio is, however, directly dependent upon the seasonal pattern of Husqvarna Group's sales. This means that credit exposure is significantly higher during the first six months of each calendar year. A provision for bad debt, based on a probability of default, is recorded at inception of the trade receivables and adjusted during the lifetime of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Provisions for bad debt at the end of the financial year 2019 amounted to SEK 223m (187), of which SEK 206m (171) refer to invoices due. For trade receivables recorded through other comprehensive income fair value changes and provisions have been immaterial during 2019.

Trade receivables past due

Trade receivables that were past due, but not yet impaired amounted to SEK 664m (869) as of December 31, 2019.

Aging analyses for past due trade receivables

Past due but not impaired, SEKm	2019	2018
Up to 1 month	180	293
1 to 3 months	151	248
>3 months	333	328
Total	664	869

Provisions for trade receivables

SEKm	2019	2018
Opening balance, January 1	187	152
Transition adjustment IFRS 9	–	16
Adjusted opening balance, January 1	187	168
New provisions	77	60
Reversed unused provisions	–6	–27
Impairment of trade receivables	–40	–14
Currency exchange rate differences	5	0
Closing balance, December 31	223	187

Husqvarna Group's result has been impacted by an impairment of a trade receivable in the Netherlands amounting to SEK 25m. The situation regarding past due receivables has improved somewhat since previous year-end, taking the total volume of outstanding trade receivables into account. The fair value of collateral held for trade receivables due for payment was SEK 28m (26). A global credit insurance program is in place in a number of countries. As of December 31, 2019 total coverage amounts to SEK 4,490m.

A plan for repayment is normally designed for customers with past due receivables at the same time as the account is placed under special surveillance. At a later stage, unpaid products may be repossessed or other securities be enforced.

Concentration of credit risk in trade receivables

Concentration of credit risk	2019		2018	
	Number of customers	% of total portfolio	Number of customers	% of total portfolio
Exposure <SEK 15m	Not available	88%	Not available	82%
Exposure SEK 15–100m	12	8%	11	11%
Exposure >SEK 100m	1	4%	1	7%

Husqvarna Group has substantial exposure towards a limited number of large customers, primarily in the US.

Credit risk in financial activities

Exposure to credit risk arises from the investment of liquid funds and through counterparty risks related to derivatives. In order to limit exposure to credit risk, a counterparty list has been created specifying the maximum approved exposure for each counterparty. Investments in liquid funds are mainly made in interest-bearing instruments with high liquidity and involve issuers with a long-term credit rating of at least A-, as defined by Standard & Poor's or similar institutions. The average time to maturity for the liquid funds was 18 days (20) at the end of 2019. A substantial part of the exposure arises from derivatives transactions.

The table below shows the gross volume of outstanding foreign exchange derivative contracts.

Maturity, SEKm	2019		2018	
	2020	2021–	2019	2020–
Amount sold	–42,539	–332	–44,334	–395
Amount purchased	42,815	333	44,600	400
Net settled derivatives (NDF)	–25	–	0	0
Net	251	1	266	5

Credit risk in other non-current assets

Husqvarna Group's long term holdings in securities consist of US government bonds. The credit risk is recognized as immaterial due to the high creditworthiness of the issuer.

FAIR VALUE ESTIMATION

Below is a description of financial instruments carried at fair value, based on the classification in the fair value hierarchy. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs that are not based on observable market data (Level 3).

The Group's financial instruments carried at fair value are derivatives. Derivatives belong to Level 2 as future cash flows have been discounted using current quoted market interest rates and exchange rates for similar instruments.

To determine the fair value of the Group's borrowings, the prevailing market rates for the respective periods have been used and the Group's credit risk has been taken into account. Changes in credit spreads have been disregarded when determining fair value of financial leases. For short-term financial instruments such as trade receivables and other receivables, other short-term investments, cash and cash equivalents, trade payables and other liabilities, and short term borrowings the fair value equals their carrying amount as the impact of discounting is not significant. Fair value of long-term borrowings are based on discounted cash flows using a rate based on the borrowing rate, and are within Level 2 in the fair value hierarchy.

SEKm	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value through profit or loss				
– of which derivatives where hedge accounting is not applied	58	58	115	115
– of which currency derivatives where hedge accounting for cash flow hedges is applied	127	127	177	177
– of which interest derivatives where hedge accounting for cash flow hedges is applied	1	1	–	–
– of which currency derivatives related to net investments in foreign operations where hedge accounting is applied	407	407	65	65
Financial assets at fair value through other comprehensive income				
Trade receivables ¹	322	322	555	555
Financial assets measured at amortized cost				
Other non-current assets	474	474	434	434
Trade receivables	3,298	3,298	3,058	3,058
Other receivables	203	203	206	206
Cash and cash equivalents	1,911	1,911	1,346	1,346
Total financial assets	6,801	6,801	5,956	5,956
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– of which derivatives where hedge accounting is not applied	126	126	78	78
– of which currency derivatives where hedge accounting for cash flow hedges is applied	103	103	66	66
– of which interest derivatives where hedge accounting for cash flow hedges is applied	55	55	33	33
– of which currency derivatives related to net investments in foreign operations where hedge accounting is applied	–	–	75	75
Financial liabilities measured at amortized cost				
Trade payables	4,099	4,099	4,622	4,622
Other liabilities	229	229	172	172
Financial leases ²	–	–	207	215
Borrowings	9,741	9,660	9,554	9,557
Total financial liabilities	14,353	14,272	14,807	14,818

¹ Trade receivables not sold but part of factoring programmes.

² Financial leases is discontinued as a result of the adoption of IFRS 16 January 1, 2019. For further information on the transition to IFRS 16 refer to note 1 and 28.

Note 21 Provisions for pensions and other post-employment benefits

In many of the countries in which Husqvarna Group has operations the employees are covered by pension plans in addition to statutory social security insurance. Such pension plans are classified as either defined contribution plans or defined benefit plans. The Group's most extensive defined benefit pension plans are in the UK, Sweden, Germany, the US and Japan (two plans). The pension plans in these countries are funded except for the plan in Germany and one of the plans in Japan. Funded plans imply that there are assets in legal entities that exist solely to finance benefits to employees and former employees.

The pension plan for the Group's employees in Germany is an unfunded cash balance plan. White collar employees in Sweden, born 1978 or earlier, are covered by a final salary collectively bargained defined benefit plan (ITP2). The old-age pension benefit of the plan is financed through a pension fund.

The Group's defined benefit pension plans in the UK and in the US were closed, some time ago, for future pension accrual. Out of the Group's most extensive defined benefit plans, there are two in Japan (however, small in comparison to the Group's other defined benefit plans) that cover all employees. One of the plans is a funded cash balance plan and the other is an unfunded plan based on career-average salary.

The pension plans in Japan, UK, Sweden and the US are so called funded plans where the pension obligations are financed through pension funds whose operations are regulated by the legislation in the relevant country. The pension funds are separate legal entities with their own Board of Directors/Trustees etc., which might consist of representatives from both the company and the employees, which are responsible for the management of the pension fund asset.

SEKm	2019						
	UK	Sweden	US	Japan	Germany	Other	Total
Present value of obligation	1,421	1,965	499	202	1,012	341	5,440
Fair value of plan assets	-1,616	-746	-327	-158	-	-166	-3,013
Surplus/Deficit ¹	-195	1,219	172	44	1,012	175	2,427
Total funding level (%)	114	38	66	79	-	48	55
Duration	18	23	12	10	12	16	18
Actuarial assumptions (%)							
Discount rate	2.0	1.8	3.00/3.25	0.5	0.8	0.4	1.6
Inflation	2.5	2.0	-	-	1.7	1.8	2.1
Sensitivity analysis (%)							
Discount rate (-0.5%)	9.4	10.9	6.3	5.2	6.3	7.8	8.4
Discount rate (+0.5%)	-8.3	-9.4	-5.7	-4.9	-5.6	-6.6	-7.4
Inflation (+0.5%)	5.2	7.3	-	-	0.8	2.4	4.2

¹ SEK 195m have been recorded as other non-current asset and SEK 2,622m have been recorded as provision for pensions.

SEKm	2018						
	UK	Sweden	US	Japan	Germany	Other	Total
Present value of obligation	1,192	1,466	431	192	943	262	4,486
Fair value of plan assets	-1,350	-628	-280	-148	-	-137	-2,543
Surplus/Deficit ¹	-158	838	151	44	943	125	1,943
Total funding level (%)	113	43	65	77	-	52	57
Duration	19	23	12	11	11	16	17
Actuarial assumptions (%)							
Discount rate	2.9	2.5	4.1/4.3	0.6	1.6	1.1	2.4
Inflation	3.2	2	-	-	1.7	1.8	2.3
Sensitivity analysis (%)							
Discount rate (-0.5%)	10.1	11.8	5.9	5.4	5.7	7.5	8.9
Discount rate (+0.5%)	-8.9	-10.2	-5.3	-5.1	-5.1	-6.5	-7.8
Inflation (+0.5%)	3.6	8.0	-	-	0.9	2.5	4.5

¹ SEK 158m have been recorded as other non-current assets and SEK 2,101m have been recorded as provision for pensions.

Specification of net provisions for pensions and other post-employment benefits recognized in the balance sheet:

SEKm	2019	2018
Present value of obligations for unfunded plans	1,215	1,109
Present value of obligations for funded plans	4,225	3,377
Fair value of plan assets	-3,013	-2,543
Net provisions for defined benefit plans	2,427	1,943

The schedules are showing the obligations of the defined benefit plans in Husqvarna Group and the assumptions used to determine these obligations. As well as the assets relating to the benefit plans, the amounts

recognized in the income statement, other comprehensive income and balance sheet. The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

The schedules include reconciliations of the opening and closing balances of the present value of the defined benefit obligation, as well as opening and closing balances of the fair value of plan assets and of the changes in net provisions during the year. In a few countries, the Group provides mandatory lump sum payments, in accordance with law or collective agreements, in conjunction with retirement. These obligations are included in the present value of the defined benefit obligation and amount at year-end to SEK 54m (46). Husqvarna Group has no post-employment medical plans. Further information regarding pension cost is available in note 4.

The movement in the present value of the net defined benefit obligation

SEKm	2019			2018		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Opening balance, January 1	4,486	–2,543	1,943	4,253	–2,555	1,698
Current service cost	175	7	182	151	4	155
Past service costs and gains/losses on settlements	3	–	3	18	–	18
Interest expenses	107	–72	35	95	–64	31
	4,771	–2,608	2,163	4,517	–2,615	1,902
Remeasurements:						
Return on plan assets	–	–310	–310	–	121	121
Actuarial gains and losses due to changes in demographic assumptions	–25	–	–25	–11	–	–11
Experience assumptions	36	–	36	67	–	67
Actuarial gains and losses due to changes in financial assumptions	670	–	670	–56	–	–56
	681	–310	371	0	121	121
Exchange rate differences on foreign plans	173	–135	38	149	–86	63
Divestments and transfers	0	0	0	–2	3	1
Contributions:						
– Employers	–84	–61	–145	–84	–60	–144
– Plan participants	6	–6	–	5	–5	–
Payments from plans:						
– Benefit payments	–107	107	–	–99	99	–
– Settlements	–	–	–	–	–	–
Closing balance, December 31	5,440	–3,013	2,427	4,486	–2,543	1,943

Plan assets comprise of the following¹:

	2019		2018	
	SEKm	%	SEKm	%
Equity instruments				
– Equities	1,172	38.9	961	36.7
Interest-bearing securities				
– Government bonds	159	5.3	35	1.3
– Corporate bonds	438	14.5	393	15.0
– Index-linked bonds	512	17.0	443	16.9
– Interest rate funds	442	14.7	464	17.8
Properties	49	1.6	40	1.5
Liquid funds	12	0.4	10	0.4
Assets held by insurance company	229	7.6	197	10.4
Total	3,013	100.0	2,543	100.0

¹ Approximately 98% (98) of total plan assets refers to listed assets.

None of the assets above refers to shares in the Parent Company or real estates occupied by the Group.

For the funded defined benefit pension plans (Sweden, UK and US represent around 89% of total pension assets) the Group's strategy is a combination of matching the assets with the liabilities and trying to achieve as high return as possible within the investment guidelines. This is partly done by investing in longer duration bonds designed to match the development of the debt and also by investing in corporate bonds, index-linked bonds and shares with the purpose of achieving a high return in various market conditions long term. As the maturity of the pension commitments decreases and/or the value of the assets reaches

a satisfactory level in relation to the debt, the Group will gradually reduce the investment risk by shifting into assets with lower volatility.

Husqvarna Group is through its defined benefit obligations exposed to a number of risks, of which the following have the greatest impact on the Group's pension liability:

Discount rate

The discount rate reflects the estimated timing of benefit payments and is used for measuring the present value of the obligation. A fluctuation in the discount rate will have a material effect on the pension obligation but will also impact the interest income and expense reported in the finance net. To determine the discount rate, AA-rated corporate bonds indexes matching the duration of the pension obligations are applied in most countries. When valuing Swedish pension liabilities Husqvarna Group uses mortgage bonds when determining discount rate.

Inflation risk

Most of the obligations are linked to inflation and an increase in inflation leads to higher debt. The return of the majority of the plan assets has a low correlation with inflation, while the holdings of index-linked bonds are protected against a rise in inflation and thus compensates for the increase in the deficit that would occur otherwise.

Longevity risk

Since most of the pension obligations mean that those covered by the plan will receive benefits for life, higher life expectancy assumptions have a significant impact on the pension liabilities.

The company expects to make contributions of approximately SEK 158m (141) to the plans during 2020.

The weighted average duration of the defined benefit obligation 18 years (17).

Note 22 Other provisions

SEKm	Provisions for restructuring	Warranty commitments	Claims	Other	Total
Opening balance, January 1, 2019	388	329	328	321	1,366
Provisions made	213	450	–	63	726
Provisions used	–272	–466	–36	–154	–928
Unused amounts reversed	–2	–4	–10	2	–14
Exchange rate differences	–23	16	15	37	45
Closing balance, December 31, 2019	304	325	297	269	1,195
Current provisions	293	203	–	89	585
Non-current provisions	11	122	297	180	610

Restructuring

Provisions for restructuring include the payments that are expected to occur in the coming years as a result of the Group's decision to close certain production facilities, rationalize production and reduce the number of employees. The amounts are based on the Group's best estimates and are adjusted when changes to these estimates occur.

Warranty commitments

Provisions for warranty comprise potential expenses for repairing or replacing products sold. Provisions are made when the products are sold and are normally limited to 24 months.

Claims

Provisions for claims refer to claim reserves in the Group's insurance companies mainly due to product liabilities but also property damage and business interruptions. The provisions are estimated based on actuarial calculations.

Other

Other provisions are in all material aspects referring to payroll related provisions.

Note 23 Other liabilities

SEKm	2019	2018
Accrued holiday pay	300	278
Other accrued payroll expenses	714	606
Accrued customer rebates	778	751
Other accrued expenses	780	597
Value added tax	57	66
Personnel taxes and other taxes	137	87
Other operating liabilities	229	172
Total	2,995	2,557

Note 24 Pledged assets and contingent liabilities

Pledged assets

SEKm	2019	2018
Pension obligations ¹	130	121
Real estate mortgages	27	27
Total	157	148

¹ Refers to endowment that is pledged in favor of the recipient.

Contingent liabilities

SEKm	2019	2018
On behalf of external counterparties		
Guarantees and other commitments	114	109
Total	114	109

In addition to the above contingent liabilities, guarantees for fulfillment of contractual undertakings are provided as part of Husqvarna Group's normal course of business. There was no indication at year-end that any payment will be required in connection with any contractual guarantees. Furthermore, there is an obligation, in the event of dealer's bankruptcy, to buy back repossessed Husqvarna Group products from certain dealers financing their floorplanning with an external financing company. During 2019 goods amounting to a value of SEK 14m (13) were bought back in connection with floorplanning activities.

Husqvarna Group is involved commercial, product liability and other disputes in the ordinary course of business. Such disputes involve claims for compensatory damages, property damages or personal injury compensation and occasionally also punitive damages. The company is self-insured to a certain extent, and is also insured against excessive liability losses for certain claims. Husqvarna Group continuously monitors and evaluates pending claims and disputes, and take action when deemed necessary. The Company believes that these activities help to minimize the risk. Due to complexity of these disputes, it is difficult to predict a favorable outcome of each claim and an adverse outcome affecting the consolidated financial position and result could occur.

Note 25 Related party transactions

Sales to related parties are carried out on market-based terms. See the Parent Company's directly owned subsidiaries in the Parent Company's note 16, Shares in subsidiaries. Information about the Board of Directors and Group Management and compensation to those are reported in note 4, Employees and employee benefits. No unusual transactions of any significance have occurred between Husqvarna Group and the Board of Directors or Group Management.

Note 26 Changes in financial liabilities

SEKm	Opening balance, January 1, 2019	Cash flow from financing ¹	Cash flow within operating income	Re-classification	Foreign exchange movement	Changes in fair value	Other non-cash movement in financing	Closing balance, December 31, 2019
Current interest-bearing borrowings (excl. lease liabilities)	3,516	-838	-	-	16	-	-	2,694
Current lease liabilities ²	395	-442	-	326	-	-	178	457
Non-current interest-bearing borrowings (excl. lease liabilities)	6,038	949	-	-	60	-	-	7,047
Non-current lease liabilities ²	1,314	-5	-	-326	24	-	297	1,304
Derivatives, net	-105	-823	52	-	-	567	-	-309
Total financial liabilities incl. net derivatives	11,158	-1,159	52	-	100	567	475	11,193

¹ Cash flow from financial liabilities is included in the Group's consolidated cash flow statement under "Proceeds from borrowings", "Repayment of borrowings", "Repayment of lease liabilities", "Net investment hedge" and "Change in other interest-bearing net debt excluding liquid funds".

² Lease liabilities have increased with 1,502m because of the adoption of IFRS 16.

SEKm	Opening balance, January 1, 2018	Cash flow from financing ¹	Cash flow within operating income	Re-classification	Foreign exchange movement	Changes in fair value	Other non-cash movement in financing	Closing balance, December 31, 2018
Current interest-bearing borrowings (excl. finance leases)	2,898	-581	-	1,114	85	-	-	3,516
Current obligations under finance leases	15	-16	-	16	1	-	-	16
Non-current interest-bearing borrowings (excl. finance leases)	4,486	2,505	-	-1,114	161	-	-	6,038
Non-current obligations under finance leases	198	-	-	-16	9	-	-	191
Derivatives, net	122	-704	-255	-	-	732	-	-105
Total financial liabilities incl. net derivatives	7,719	1,204	-255	-	256	732	-	9,656

¹ Cash flow from financial liabilities is included in the Group's consolidated cash flow statement under "Proceeds from borrowings", "Repayment of borrowings", "Net investment hedge" and "Change in other interest-bearing net debt excluding liquid funds".

Note 27 Acquisitions

Acquisition of Concrete Power Trowel business from Wacker Neuson Group

Husqvarna Group's Construction Division has in 2019 acquired the Concrete Power Trowel business from Wacker Neuson Group at a purchase price of SEK 41m. The acquisition included all the product, R&D and manufacturing assets relating to walk-behind and ride-on concrete power trowels. Sales in the power trowel segment (acquired assets) in 2018 amounted to about SEK 150m.

Acquisition of Light Compaction & Concrete Equipment

Husqvarna Group acquired the Light Compaction and Concrete Equipment business from Atlas Copco on February 1, 2018, the global leader in this segment. The acquisition includes product lines, operations and R&D in Bulgaria, and specific sales and service resources that will reinforce Husqvarna Construction's existing organization. The acquired product range complements the Construction Division's offering within concrete surfaces and floors.

Husqvarna Group acquired 100% of the shares in Construction Tools EOOD, Bulgaria, and assets in mainly Sweden.

The goodwill of SEK 115m arising from the acquisition is attributable to economies of scale from distributing the Light Compaction and Concrete Equipment business range of products in the Construction Division's distribution network.

Summary balance sheet as of acquisition date February 1, 2018

SEKm	
Property, plant and equipment	38
Other intangible assets	115
Inventories	46
Trade receivables and other current assets	35
Cash and cash equivalents	12
Trade payables and other liabilities	-55
Total identifiable net assets	191
Goodwill	115
Total net assets	306
Less acquired cash	-12
Net cash flow – investments	294

¹ The fair value of trade and other receivables is SEK 35m and includes trade receivables with contractual amount of SEK 29m. No trade receivables are expected to be uncollectible.

Acquisition-related costs of SEK 6m have been charged to administrative expenses in the consolidated income statement in 2017.

The net sales, contributed by the Light Compaction and Concrete Equipment business, included in the consolidated statement of comprehensive income since the acquisition date amounted to SEK 346m. The operating income that Light Compaction & Concrete Equipment contributed with during this period is immaterial. No transactions recognized before the acquisition date.

Note 28 Changes in accounting policies and reclassifications

This note explains the impact of the adoption of IFRS 16 "Leases", and IFRIC 23 "Uncertainty over income tax treatments".

a) IFRS 16 "Leases" transition

Husqvarna Group applies IFRS 16 "Leases" from January 1, 2019. IFRS 16 replaces IAS 17 "Leases". IFRS 16 resulted in most leases being recognized in the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (for the right to use the leased asset) and a financial liability (the obligation to make lease payments) is recognized, with exceptions for short-term leases and low-value assets. The standard affects the accounting for the Group's operating leases (mainly buildings, cars and forklifts).

Husqvarna Group adopts IFRS 16 "Leases" retrospectively from January 1, 2019 with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the 2018 financial year have not been restated. On adoption of IFRS 16 the Group recognized lease liabilities in relation to leases which have previously been classified as operating leases under IAS 17. These liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at January 1, 2019. The weighted average discount rate was 2.2% as at January 1, 2019. The lease liability recognized as of January 1, 2019 increased by SEK 1,502m as a result of the adoption of IFRS 16. The Group had non-cancellable operating lease commitments of SEK 1,586m as at December 31, 2018, SEK 1,484m when discounted. The difference can be explained by the exceptions for short-term leases and low-value assets and the use of extension options as according to IFRS 16.

The Group has used the practical expedient permitted by the standard to exclude initial direct cost for the measurement of the right of use asset at the date of initial application, and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The right of use assets have been measured at an amount equal to the lease liability at transition. Non-current assets increased by SEK 1,502m on January 1, 2019 due to recognized right of use assets. The total effect in the income statement is not significant, there is a slight shift in the income statement, where operating income increase and the financial items decrease.

b) IFRIC 23 "Uncertainty over income tax treatments"

Husqvarna Group applies IFRIC 23 "Uncertainty over income tax treatments" from January 1, 2019. IFRIC 23 is a new interpretation of uncertain income tax treatments within the scope of IAS 12 Income taxes. IFRIC 23 clarifies how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

Husqvarna Group adopts IFRIC 23 "Uncertainty over income tax treatments" retrospectively from January 1, 2019 with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the 2018 financial year have not been restated. Uncertain tax liabilities of SEK 167m that has previously been recognized as deferred tax liabilities has been reclassified to current tax liabilities as at January 1, 2019, as a result of the adoption of IFRIC 23.

The following table shows the adjustments for each individual line item.

Consolidated balance sheet

SEKm	Dec 31, 2018	a) IFRS 16	b) IFRIC 23	Jan 1, 2019 restated
Assets				
Property, plant and equipment	6,064	–	–	6,064
Right of use assets	120	1,502	–	1,622
Goodwill	7,105	–	–	7,105
Other intangible assets	5,534	–	–	5,534
Derivatives	0	–	–	0
Other non-current assets	592	–	–	592
Deferred tax assets	1,585	–	–	1,585
Total non-current assets	21,000	1,502	–	22,502
Total current assets	17,607	–	–	17,607
Total assets	38,607	1,502	–	40,109
Equity and liabilities				
Total equity	16,009	–	–	16,009
Borrowings	6,038	–	–	6,038
Lease liabilities	191	1,123	–	1,314
Derivatives	34	–	–	34
Deferred tax liabilities	1,794	–	–167	1,627
Provisions for pensions and other post-employment benefits	2,101	–	–	2,101
Other provisions	696	–	–	696
Total non-current liabilities	10,854	1,123	–167	11,810
Trade payables	4,622	–	–	4,622
Tax liabilities	145	–	167	312
Other liabilities	2,557	–	–	2,557
Borrowings	3,516	–	–	3,516
Lease liabilities	16	379	–	395
Derivatives	218	–	–	218
Other provisions	670	–	–	670
Total current liabilities	11,744	379	167	12,290
Total equity and liabilities	38,607	1,502	–	40,109

Notes – Group

Note 29 Subsequent events

No significant events have occurred subsequent to December 31, 2019 that would have a material impact on the Husqvarna Group's financial statements.

Parent Company income statement

SEKm	Note	2019	2018
Net sales	3	17,838	17,185
Cost of goods sold	5, 6	–13,626	–14,109
Gross income		4,212	3,076
Selling expenses	5	–1,449	–1,334
Administrative expenses	5	–1,308	–1,192
Other operating income and operating expenses	7	9	0
Operating income	4, 8, 9	1,464	550
Income from financial items			
Income from participation in Group companies	10	8,213	553
Financial income	11	157	94
Financial expenses	11	–1,322	–1,612
Income after financial items		8,512	–415
Appropriations	12	110	337
Income before taxes		8,622	–78
Income tax	13	–92	133
Net Income		8,530	55

Parent Company comprehensive income statement

SEKm	2019	2018
Net Income	8,530	55
Other comprehensive income		
Items that may be reclassified to the income statement:		
Cash flow hedges		
Result arising during the period, net of tax	38	18
Reclassification adjustments to the income statement, net of tax	–40	72
Other comprehensive income, net of tax	–2	90
Total comprehensive income	8,528	145

Parent Company balance sheet

SEKm	Note	Dec 31, 2019	Dec 31, 2018
Assets			
<i>Non-current assets</i>			
Intangible assets	14	1,949	2,028
Property, plant and equipment	15	2,346	2,034
Financial assets			
Shares in subsidiaries	16	33,782	29,436
Derivatives	19	1	1
Other non-current assets	17, 19	65	65
Deferred tax assets	13	83	170
Total non-current assets		38,226	33,734
<i>Current assets</i>			
Inventories	18	2,171	2,127
Receivables			
Trade receivables	19	455	472
Receivables from Group companies	19	5,699	6,834
Derivatives	19	678	386
Other receivables	19, 20	110	110
Tax receivables		91	150
Prepaid expenses and accrued income	20	133	193
Cash and cash equivalents	19	650	165
Total current assets		9,987	10,437
Total assets		48,213	44,171
Equity and liabilities			
<i>Restricted equity</i>			
Share capital		1,153	1,153
Revaluation reserve		3	3
Statutory reserves		18	18
Reserve related to R&D expenses		1,276	1,029
<i>Non-restricted equity</i>			
Share-premium reserve		2,605	2,605
Fair value reserve		18	21
Profit or loss brought forward		16,198	17,652
Net Income		8,530	55
Total equity		29,801	22,536
Untaxed reserves	12	794	794
<i>Provisions</i>			
Provisions for pensions and other post-employment benefits	22	1	48
Other provisions	23	100	111
Total provisions		101	159
<i>Non-current liabilities</i>			
Borrowings	19, 27	6,826	5,776
Derivatives	19	55	34
Total non-current liabilities		6,881	5,810
<i>Current liabilities</i>			
Borrowings	19, 27	2,576	3,415
Liabilities to Group companies	19	5,754	9,085
Trade payables	19	1,226	1,356
Derivatives	19	264	368
Other liabilities	21	816	648
Total current liabilities		10,636	14,872
Total equity and liabilities		48,213	44,171

Parent Company cash flow statement

SEKm	Note	2019	2018
Cash flow from operations			
Income after financial items		8,512	–415
Non cash items			
Depreciation/amortization and impairment	5, 14, 15	960	784
Capital gains and losses		–9	0
Other non cash items		385	551
Taxes paid		55	–390
Cash flow from operations, excluding change in operating assets and liabilities		9,903	530
Change in operating assets and liabilities			
Change in inventories		–44	–451
Change in trade receivables		17	–5
Change in inter-company receivables/liabilities		–2,402	342
Change in other current assets		–227	40
Change in current liabilities and provisions		–126	83
Cash flow from operating assets and liabilities		–2,782	9
Cash flow from operations		7,121	539
Investments			
Paid shareholder's contribution	16, 17	–4,704	–3
Investments in intangible assets	14	–637	–805
Investments in property, plant and equipment	15	–578	–499
Sale of property, plant and equipment and intangible assets		20	10
Cash flow from investments		–5,899	–1,297
Cash flow from operations and investments		1,222	–758
Financing			
New borrowings	27	1,050	4,830
Repayment of borrowings	27	–838	–2,886
Dividend paid to shareholders		–1,287	–1,286
Group contribution paid/received		338	–
Cash flow from financing		–737	658
Total cash flow		485	–100
Cash and cash equivalents at beginning of year		165	265
Cash and cash equivalents at year-end		650	165

Parent Company statement of changes in equity

SEKm	Share capital	Restricted reserves ³	Reserve related to R&D expenses	Share-premium reserve	Fair value reserve ⁴	Profit or loss brought forward incl. profit of the year	Total
Opening balance, January 1, 2018	1,153	21	591	2,605	-69	19,378	23,679
Net income	-	-	-	-	-	55	55
Other comprehensive income	-	-	-	-	90	-	90
Total comprehensive income	-	-	-	-	90	55	145
Share-based payments	-	-	-	-	-	-2	-2
Change of Restricted reserves related to capitalized R&D ¹	-	-	438	-	-	-438	-
Dividend SEK 2.25 per share ²	-	-	-	-	-	-1,286	-1,286
Closing balance, December 31, 2018	1,153	21	1,029	2,605	21	17,707	22,536
Net income	-	-	-	-	-	8,530	8,530
Other comprehensive income	-	-	-	-	-2	-	-2
Total comprehensive income	-	-	-	-	-2	8,530	8,528
Share-based payments	-	-	-	-	-	24	24
Change of Restricted reserves related to capitalized R&D ¹	-	-	247	-	-	-247	-
Dividend SEK 2.25 per share ²	-	-	-	-	-	-1,287	-1,287
Closing balance, December 31, 2019	1,153	21	1,276	2,605	19	24,727	29,801

¹ The reserve related to R&D and IT expenses is only applied in the parent company. Information about the accounting principle is available in the Parent company's note 1.

² Total dividend 2019 amounts to SEK 1,297m (1,298), of which Husqvarna AB received SEK 10m (12) for B-shares in third party share swap agreement.

³ Restricted reserves relates to revaluation reserve together with statutory reserves.

⁴ Relates to result and reclassification adjustments to the income statement for Cash flow hedges, net of tax, which are recognised in other comprehensive income.

Information regarding the Parent Company's shares, share capital and share-premium reserve is available in the Group's note 19.

Note 1 Parent Company's Accounting principles

Husqvarna AB's (publ) Annual Report has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's standard RFR 2. The Parent Company follows the International Financial Reporting Standards (IFRS) adopted by EU, to the extent possible within the framework for the Swedish Annual Accounts Act and Swedish Safe-guarding of Pension Commitments Act (Tryggandelagen), and considering the relationship between accounting and taxation. The Parent Company is following the same principles as described in the Group note 1, with the below exceptions.

Segments

Information is reported in accordance with the Swedish Annual Accounts Act and contains disclosures of net sales divided by geography and per product category.

Intangible assets

The Parent company amortize all brands on a straight-line basis during the useful life, which according to group policy is estimated at 10 years.

Property, plant and equipment

The Parent Company uses methods for depreciations described in the section "Property, plant and equipment" in the Group's note 1 with some exception, which is described below.

The Parent Company accounts for tax depreciation in accordance with the Swedish tax law as appropriations in the Income statement. These depreciations are accounted for in addition to the depreciation described in the section "Property, plant and equipment" in the Group's note 1 and are reported as untaxed reserves in the Balance sheet.

Shares in subsidiaries

Shares in subsidiaries are reported at cost deducted for impairment. Expenses and potential additional purchase price, related to an acquisition are included in the acquisition value of the investment. Investments are tested annually for impairment or if there is an indication of that the book value of the investment is higher than the recoverable amount. Dividends are reported as income.

Pensions

Husqvarna Group applies IAS 19 Employee Benefits for pension assets and liabilities. The Parent Company applies the Swedish Safe-guarding of Pension Commitments Act (Tryggandelagen).

Group contributions

Husqvarna AB applies the alternative rule in RFR 2, and accounts for both group contribution received and paid as appropriations in the income statement.

Contingent liabilities

The Parent Company has signed guarantees in favor of subsidiaries which in accordance with IFRS are classified as a financial guarantee. However, the Parent Company applies RFR 2 and recognizes these guarantees as contingent liabilities.

Leasing

The Parent Company applies RFR 2 and recognizes all leasing as a linear cost over the lease period.

Reserve related to R&D expenses

The parent company capitalizes R&D and IT in the balance sheet. From 2016 and forward, a restricted reserve is presented for internally generated R&D and IT, where an amount equal to this year's capitalization reduced with amortization is transferred from free reserves to restricted reserves. The restricted reserve dissolves in line with the amortizations.

Note 2 Financial risk management

Husqvarna Group applies common risk management for all units. Group Treasury is part of the Parent Company and the description of financial risk management available in the Group's note 20 is in all material aspects applicable also for the Parent Company.

Note 3 Net sales distribution

Net sales are distributed on the following geographic markets

SEKm	2019	2018
Europe	12,798	13,001
North America	2,408	1,924
Rest of the World	2,632	2,260
Total¹	17,838	17,185

¹ Net sales amounted to SEK 17,838m (17,185), of which SEK 13,983m (13,612) referred to sales to Group companies and 3,855 m (3,573) to external customers.

Net sales distribution per product category

SEKm	2019	2018
Forest-, park- and garden products	14,572	14,516
Construction products	3,179	2,621
Other	87	48
Total	17,838	17,185

Note 4 Employees and employee benefits

Average number of employees

	2019			2018		
	Men	Women	Total	Men	Women	Total
Board, President and CEO and Group Management	13	6	19	13	7	20
Sweden	1,608	538	2,146	1,502	477	1,979
Total	1,621	544	2,165	1,515	484	1,999

Salary and remuneration

SEKm	2019			2018		
	Salaries and remunerations (whereof bonuses)	Social expenses	Pension expenses	Salaries and remunerations (whereof bonuses)	Social expenses	Pension expenses
Board, President and CEO and Group Management	86 (0)	29	15	45 (0)	23	15
Other employees	1,249	406	119	1,215	420	155
Total	1,335	435	134	1,260	443	170

For further information regarding remunerations to the Board of Directors, President and CEO and the Group Management together with the Group's long term incentive program see the Group's note 4.

Note 5 Expenses by nature

SEKm	2019	2018
Costs for supplies and raw materials	9,638	9,484
Remuneration to employees	1,904	1,873
Amortization/depreciation and impairment	960	784
Other	3,881	4,494
Total	16,383	16,635

Note 6 Exchange rate gains and losses in operating income

SEKm	2019	2018
Exchange rate gains and losses in operating income ¹	-56	-213
Total	-56	-213

¹ Included in selling expenses within operating income.

Operating income includes SEK 49m (-74) of foreign exchange hedging result previously reported in other comprehensive income. Information related to the accounting of fair value in financial instruments is presented in the Group's note 1.

Note 7 Other operating income and operating expenses

SEKm	2019	2018
Other operating income		
Gain on sale of:		
– Property, plant and equipment	9	0
– Operations and shares	–	0
Total	9	0
Other operating expenses		
Loss on sale of:		
– Property, plant and equipment	0	0
Total	0	0

Note 8 Fees to auditors

SEKm	2019	2018
EY		
Audit fees for the annual audit engagement	6	6
Audit fees not included in the annual audit engagement	0	–
Tax advices	1	1
Other services	0	0
Total fees to EY	7	7

Note 9 Operating leases

There are no material contingent expenses or restrictions among the Parent Company's operating leases. Expenses for rental payments for facilities, machinery etc. (minimum lease payments) amounted to SEK 85m (84) in 2019.

Future minimum lease payments are allocated as follows:

SEKm	2019	2018
Within 1 year	84	56
1–5 years	148	116
> 5 years	23	0
Total	255	172

Note 10 Income from participation in Group companies

SEKm	2019	2018
Dividends	8,289	770
Profit/Loss on sales of shares in Group	282	–
Impairment	-358	-217
Total	8,213	553

Note 11 Financial income and expense

SEKm	2019	2018
Financial income		
Interest income		
– from subsidiaries	57	32
– from others	100	62
whereof Interest income		
– on deposits	59	38
– on derivatives held for trading	98	56
Exchange rate differences		
– on borrowings	–	–
– on derivatives held for trading ²	–	–
Total financial income	157	94
Financial expenses		
Interest expense		
– to subsidiaries	-55	-41
– to others	-586	-505
whereof Interest expense		
– on borrowings	-159	-165
– on cashflow hedges, interest derivatives	-24	-33
– on derivatives held for trading ¹	-458	-348
Exchange rate differences		
– on borrowings	-81	-258
– on derivatives held for trading ²	-585	-788
Other financial expenses	-15	-20
Total financial expenses	-1,322	-1,612
Financial income and expenses, net	-1,165	-1,518

¹ Interest expense on derivatives held for trading includes interest expense on derivatives for hedging net investments SEK -410m (-327).

² Currency exchange rate difference on derivatives held for trading includes currency exchange rate differences on derivatives for hedging net investments SEK -669m (-1,059).

Note 12 Appropriations and untaxed reserves

SEKm	Appropriations		Untaxed Reserves	
	2019	2018	2019	2018
Group contribution, received	110	325	–	–
Group contribution, paid	–	–	–	–
Accumulated depreciation in excess of plan on Machinery and equipment	–	–	399	399
Brands and other intangible assets	–	12	395	395
Total	110	337	794	794

Note 13 Tax

SEKm	2019	2018
Current tax on income for the period	–4	6
Deferred tax income/expense	–88	127
Total	–92	133

Theoretical and actual tax rate

	2019		2018	
	Tax, %	SEKm	Tax, %	SEKm
Profit before tax	–	8,622	–	–78
Theoretical tax rate	–21.4	–1,845	22.0	17
Non-taxable income statements items	21.4	1,842	222.2	174
Non-deductable income statement items	–1.0	–84	–70.5	–55
Change in valuation of deferred tax	–	–	–	–
Effect of tax rate change	–0.0	–1	–7.5	–6
Withholding tax	–0.0	–4	2.8	3
Actual tax rate ¹	–1.0	–92	169.0	133

¹ Actual tax rate in the Parent Company is explained by a non-taxable dividend from subsidiaries of SEK 8,289m (770) and a result from shares of SEK 282m (–) as well as impairment of shares in subsidiaries SEK 358m (217).

Changes in deferred taxes

SEKm	Balance, Jan 1, 2019	Recognized in income statement	Recognized in comprehensive income statement	Reclassification	Balance, Dec 31, 2019	Balance, Jan 1, 2018	Recognized in income statement	Recognized in comprehensive income statement	Reclassification	Balance, Dec 31, 2018
Non-current assets	–5	1	0	–	–4	–5	–	–	–	–5
Provision for pensions and similar commitments	31	2	0	–	33	35	–4	–	–	31
Other provisions	22	36	0	–	58	18	4	–	–	22
Financial and operating liabilities	–5	0	1	–	–4	20	–20	–5	–	–5
Tax losses carried forward	127	–127	0	–	0	–	127	–	–	127
Deferred tax assets and liabilities, net	170	–88	1	–	83	68	107	–5	–	170

Tax items recognized in Other comprehensive income amounts to SEK 1m (–5) for items related to cash flow hedges.

Deferred tax assets and liabilities

SEKm	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Non-current assets	–	–	4	5	–4	–5
Provisions for pensions and similar commitments	33	31	–	–	33	31
Other provisions	58	22	–	–	58	22
Financial and operating liabilities	–	0	4	5	–4	–5
Tax losses carried forward	0	127	–	–	0	127
Deferred tax assets and liabilities	91	180	8	10	83	170
Set-off of tax	–8	–10	–8	–10	–	–
Deferred tax assets and liabilities, net	83	170	–	–	83	170

Note 14 Intangible assets

SEKm	Product development	Brands	Other	Total
2019				
Opening accumulated acquisition value	2,555	1,544	1,239	5,338
Investments	508	–	128	637
Sold, scrapped	–9	–	–4	–13
Closing accumulated acquisition value	3,054	1,544	1,363	5,962
Opening accumulated amortization and impairment	1,520	1,165	625	3,310
Amortization ¹	359	130	197	686
Impairment	27	–	–	27
Sold, scrapped	–9	0	–1	–10
Closing accumulated amortization and impairment	1,897	1,295	821	4,013
Closing balance, December 31, 2019	1,157	249	543	1,949

SEKm	Product development	Brands	Other	Total
2018				
Opening accumulated acquisition value	2,032	1,742	1,038	4,812
Investments	567	37	201	805
Sold, scrapped	–44	–235	–	–279
Closing accumulated acquisition value	2,555	1,544	1,239	5,338
Opening accumulated amortization and impairment	1,283	1,270	456	3,009
Amortization ¹	257	130	169	556
Impairment	24	–	–	24
Sold, scrapped	–44	–235	–	–279
Closing accumulated amortization and impairment	1,520	1,165	625	3,310
Closing balance, December 31, 2018	1,035	379	614	2,028

¹ In the income statement depreciation is accounted for within cost of goods sold by SEK 382m (444), within selling expenses by SEK 0m (0) and within administrative expenses by SEK 304m (112).

Note 15 Property, plant and equipment

SEKm	Land and land improvements ²	Buildings and leasehold improvements	Machinery and technical installations	Other equipment	Construction in progress and advances	Total
2019						
Opening accumulated acquisition value	12	356	1,947	236	697	3,248
Investments	–	5	233	5	335	578
Sold, scrapped	–1	–	–2	–	–	–3
Reclassification	–	7	281	12	–318	–19
Closing accumulated acquisition value	11	368	2,459	253	714	3,804
Opening accumulated depreciation and impairment	5	175	881	153	–	1,214
Depreciation ¹	–	16	211	21	–	247
Impairment	–	–	–	–	–	–
Sold, scrapped	–	–	–3	0	–	–3
Reclassification	–	–	–	–	–	–
Closing accumulated depreciation and impairment	5	191	1,089	174	–	1,458
Closing balance, December 31, 2019	6	177	1,370	79	714	2,346
2018						
Opening accumulated acquisition value	12	338	1,875	216	530	2,971
Investments	–	6	106	10	377	499
Sold, scrapped	–	–	–220	–2	–	–222
Reclassification	0	12	186	12	–210	0
Closing accumulated acquisition value	12	356	1,947	236	697	3,248
Opening accumulated depreciation and impairment	5	161	920	136	–	1,222
Depreciation ¹	0	14	171	19	–	204
Impairment	–	–	–	–	–	–
Sold, scrapped	–	–	–210	–2	–	–212
Reclassification	–	–	–	–	–	–
Closing accumulated depreciation and impairment	5	175	881	153	–	1,214
Closing balance, December 31, 2018	7	181	1,066	83	697	2,034

¹ In the income statement depreciation is accounted for within cost of goods sold by SEK 242m (198), within selling expenses by SEK 0m (0) and within administrative expenses by SEK 5m (6).

² The net book value for land is SEK 5m (5).

Note 16 Shares in subsidiaries

Country	Subsidiaries	Registration number	Holding, %	Net book value, SEK m 2019	Net book, SEKm 2018
Belgium	Husqvarna Belgium SA	0400.604.654	100	486	1,172
Canada	Husqvarna Canada Corp.	82354277RT0001	100	271	271
Colombia	Husqvarna Colombia S.A.	900.047.189-0	95	1	1
Denmark	Husqvarna Danmark A/S	26205328	100	16	16
Estonia	Husqvarna Eesti Osühing	11159436	100	0	0
Ireland	Husqvarna Finance Ireland Ltd	611319	100	9,816	9,816
Kenya	Outdoor Power Products Husqvarna Kenya Ltd	PVT-DLU8KXM	100	0	0
Latvia	SIA Husqvarna Latvija	40003760065	100	3	3
Slovakia	Husqvarna Slovensko s.r.o.	36437115	100	0	0
South Africa	Husqvarna South Africa (Proprietary) Limited	2005.025971.07	100	19	19
Sweden	Husqvarna Försäkrings AB	516406-0393	100	57	57
Sweden	Husqvarna Intellectual Property Holding AB	556745-5893	100	0	0
Sweden	Husqvarna Holding Aktiebolag	556037-1964	100	12,499	12,499
Sweden	McCulloch Trademark Holding AB	556199-0683	100	0	0
Sweden	Poulan Pro Trademark Holding AB	559170-2609	100	0	0
Sweden	Gardena Flymo AB	559170-2617	100	0	0
U.S.	Millhouse Insurance Company	20-4233540	100	79	79
U.S.	Husqvarna U.S. Holding, Inc.	34-1946153	100	10,535	5,503
Total				33,782	29,436

During 2019 the net book value of Husqvarna Belgium SA has been impaired with SEK 358m and a capital reduction with SEK 328m. During 2019, an capital injection has been made to Husqvarna U.S Holding, Inc with SEK 5,032m. Motorsågen 1 AB has been sold externally during 2019. There is also a number of subsidiaries to the subsidiaries, a detailed specification of Group companies is available on request from Husqvarna AB, Investor Relations.

Note 17 Other non-current assets

SEKm	2019	2018
Receivables Group	41	38
Other long-term receivables	24	27
Total	65	65

Note 18 Inventories

SEKm	2019	2018
Supplies including raw materials	472	444
Products in progress	8	15
Finished products	1,690	1,667
Advances to suppliers	1	1
Total	2,171	2,127

Provisions for obsolescence are included in the value of the inventory and amounts to SEK 83m (77). Provision made during the year amount to SEK 111m (58) and SEK 104m (49) has been reversed. Inventories valued to net realizable value amounted to SEK 70m (68) referring to finished products and SEK 0m (0) referring to raw materials.

Note 19 Financial assets and liabilities

Financial assets and liabilities per category

SEKm	Financial assets valued at fair value	Financial assets for which hedge accounting is applied	Other financial assets	Total
2019				
Assets				
Derivatives	512	166	1	679
Receivables Group companies ¹	–	–	5,740	5,740
Trade receivables	–	–	455	455
Other receivables	–	–	11	11
Cash and cash equivalents	–	–	650	650
Total	512	166	6,857	7,535
2018				
Assets				
Derivatives	263	124	–	387
Receivables Group companies ¹	–	–	6,872	6,872
Trade receivables	–	–	472	472
Other receivables	–	–	11	11
Cash and cash equivalents	–	–	165	165
Total	263	124	7,520	7,907

¹ For long-term receivables to Group companies, see note 17.

SEKm	Financial liabilities valued at fair value	Financial liabilities for which hedge accounting is applied	Other financial liabilities	Total
2019				
Liabilities				
Borrowings	–	–	9,402	9,402
Liabilities to Group companies	–	–	5,754	5,754
Trade payables	–	–	1,226	1,226
Derivatives	175	144	–	319
Total	175	144	16,382	16,701
2018				
Liabilities				
Borrowings	–	–	9,191	9,191
Liabilities to Group companies	–	–	9,085	9,085
Trade payables	–	–	1,356	1,356
Derivatives	304	98	–	402
Total	304	98	19,632	20,034

Future undiscounted cashflows of loans and other financial liabilities as of December 31, 2019¹

SEKm	2020	2021	2022	2023	2024	>2024	Total
Bonds, bank loans and other loans	–2,683	–1,345	–1,302	–1,558	–1,778	–604	–9,270
Liabilities to Group Companies	–5,754	–	–	–	–	–	–5,754
Derivative liabilities, interest rate	–12	–11	–12	–10	–15	0	–60
Derivative liabilities, foreign exchange	–308	–12	–	–	–	–	–320
Trade payables	–1,226	–	–	–	–	–	–1,226
Total financial liabilities	–9,983	–1,368	–1,314	–1,568	–1,793	–604	–16,630

¹ Please note that the table includes the forecast future nominal interest payment and, thus, does not correspond to the net book value in the balance sheet.

Derivatives

The main part of the Group's derivatives is held by the Parent Company. Disclosures regarding the derivatives are available in the Group's note 20.

Trade receivables

Husqvarna AB's trade receivables amount to SEK 455m (472) as per December 31, 2019.

Trade receivables past due but not impaired amount to SEK81m (34) as of December 31, 2019.

Aging analysis for past due, but not impaired trade receivables

SEKm	2019	2018
<3 months	61	27
>3 months	20	7
Total past due but not impaired	81	34

Provision for overdue accounts receivables

SEKm	2019	2018
Opening balance, January 1	14	15
New provisions	12	5
Reversed unused provisions	-4	-2
Write off accounts receivables	-4	-4
Closing balance, December 31	18	14

The credit risk in financial assets is described in the Group's note 20.

Borrowings

The main part of the borrowings in Husqvarna Group is reported within the Parent Company. For disclosures regarding fair value and interest exposure, see the Group's note 20.

Note 20 other current assets

SEKm	2019	2018
Value added tax	75	77
Miscellaneous short-term receivables	35	33
Prepaid rents and leases	11	7
Prepaid insurance premiums	5	3
Other prepaid expenses	117	183
Total	243	303

Note 21 other liabilities

SEKm	2019	2018
Accrued holiday pay	161	152
Other accrued payroll expenses	245	198
Accrued customer rebates	71	59
Other accrued expenses	270	178
Personnel taxes and other taxes	69	61
Total	816	648

Note 22 Provisions for pensions**Specification of the net provision for pensions**

SEKm	2019	2018
Present value of the funded pension obligations	751	680
Fair value of plan assets	-750	-632
Surplus/deficit of the pension fund	1	48
Surplus of the pension fund, not recognized	0	0
Net provision for pensions	1	48

Specification of the change in the net provision for pensions

SEKm	2019	2018
Opening balance, January 1	48	-
Costs for pensions recognized in the income statement	-21	72
Benefits paid	-26	-24
Closing balance, December 31	1	48

Of total net provisions, SEK 1m (48) is within the scope of the Swedish Safe-guarding of Pension Commitments Act.

Pension costs recognized in the Income statement

SEKm	2019	2018
Own pensions		
Current service costs	-47	48
Benefits paid	26	24
Pension costs	-21	72
Insured pensions		
Insurance premiums	107	98
Total net expenses for pensions	86	170

Of total net expenses of SEK 86m (170), SEK 44m (91) is recognized in cost of goods sold, SEK 11m (20) in selling expenses and SEK 31m (59) in administration expenses. The expected payments 2020 for own pensions amounts to SEK 26m.

Principal actuarial assumptions at balance sheet date

%	2019	2018
Discount rate	2.5	2.5

The major categories of plan assets as a percentage of total plan assets and the return on these categories

%	2019	Return	2018	Return
Equity instruments	41	45	41	-1
Debt instruments	59	19	59	2
Total	100	19	100	1

The employees are covered by pension plans in addition to statutory social security insurance. Such pension plans are classified as either defined contribution plans or defined benefit plans. The pension plans are funded which imply that there are assets in a legal entity that exist solely to finance benefits to employees and former employees. White collar employees, born 1978 or earlier, are covered by a final salary collectively bargained defined benefit plan (ITP2). The old-age pension benefit of the plan is financed primarily through a pension fund. Employees born 1979 or later are covered by ITP 1, which is a defined contribution pension plan. More information about pensions are presented in Group notes 4 and 21.

Note 23 other provisions

SEKm	Provisions for re-structuring	Warranty commitments	Other	Total
Opening balance January 1, 2019	63	34	14	111
Provisions made	36	32	21	89
Provisions used	-51	-35	-14	-100
Closing balance, December 31, 2019	48	31	21	100
Current provisions	38	23	15	76
Non-current provisions	10	8	6	24

Provisions for restructuring

See the Group's note 22 for further information regarding Husqvarna Group's restructuring programmes.

Warranty commitments

Provisions for warranty comprises all potential expenses for repairing or replacing products sold and are normally limited to 24 months.

Note 24 Pledged assets and contingent liabilities

Pledged assets

SEKm	2019	2018
Pension obligation ¹	129	121
Total	129	121

¹ Refers to endowment that is pledged in favor of the recipient.

Contingent liabilities

SEKm	2019	2018
On behalf of Group companies		
Pension obligation	466	431
On behalf of external counterparties		
Bank guarantee	97	93
Pension obligation	15	13
Total	578	537

As described in note 24 to the Group's Financial Statements, the Husqvarna Group is exposed to certain contingent liabilities regarding commercial guaranties, commercial litigation, and related disputes.

Husqvarna AB, as the parent company of the Group, may be directly liable for such obligations (for example, if it is directly named in such a lawsuit) and/or may have indirect liability for the same, such as when an intra-company guarantee is in place. Please refer to the Groups note 24 for more details.

Note 25 Related party transactions

Sales to related parties are carried out on market-based terms. Information about the Board of Directors and Group Management and compensation to those are reported in Group note 4, Employees and employee benefits. No unusual transactions have occurred between Husqvarna Group and the Board of Directors or Group Management. The value of those business transactions are insignificant.

Note 26 Subsequent events

No significant events have occurred subsequent to the balance sheet date that would have a material impact on the Parent Company's financial statements.

Note 27 Changes in financial liabilities

SEKm	Opening balance, January 1, 2019	Cash flows ¹	Reclassification	Foreign exchange movement	Other non-cash movement	Closing balance, December 31, 2019
Current interest-bearing borrowings	3,415	-839	-	-	-	2,576
Non-current interest-bearing borrowings	5,776	1,000	-	50	-	6,826
Total financial liabilities	9,191	161	-	50	-	9,402

¹ Cash flow from financial liabilities is included in the Parent Company's cash flow statement under "Proceeds from borrowings" and "Repayment of borrowings".

SEKm	Opening balance, January 1, 2018	Cash flows ¹	Reclassification	Foreign exchange movement	Other non-cash movement	Closing balance, December 31, 2018
Current interest-bearing borrowings	2,812	-586	1,114	75	-	3,415
Non-current interest-bearing borrowings	4,222	2,530	-1,114	138	-	5,776
Total financial liabilities	7,034	1,944	-	213	-	9,191

¹ Cash flow from financial liabilities is included in the Parent Company's cash flow statement under "Proceeds from borrowings" and "Repayment of borrowings".

Note 28 Proposed distribution of earnings

The Board of Directors proposes a dividend for 2019 of SEK 2.25 per share (2.25) corresponding to a total dividend payment of SEK 1,287m (1,286) based on the number of outstanding shares at the end of 2019. It is also proposed that the dividend will be paid in two instalments to better match the Group's cash flow profile, with one payment of SEK 0.75 per share in April and the remaining SEK 1.50 per share in October.

The proposed record dates are April 6, 2020 for the first payment and October 6, 2020 for the second payment.

SEKt	2019
The following profits are at the disposal of the AGM:	
Share premium reserve	2,605,747
Retained earnings	16,215,401
Net income	8,530,250
Total	27,351,398

SEKt	2019
The Board proposes the following allocation of available profits:	
Dividend to the shareholders of SEK 2.25 per share ¹	1,287,456
To be carried forward	26,063,942
Total	27,351,398

¹ Calculated on the number of outstanding shares as per December 31, 2019.

The Board is of the opinion that the dividend proposed above is justifiable on both the Company and the Group level with regard to the demands on the Company and Group equity imposed by the type, scope and risks of the business and with regard to the Company and the Group's financial strength, liquidity and overall position.

Declaration by the Board of Directors and the President and CEO

The Board of Directors and the President and CEO declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations.

The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, February 27, 2020

Tom Johnstone
Chair of the Board

Ulla Litzén
Board member

Katarina Martinson
Board member

Bertrand Neuschwander
Board member

Daniel Nodhäll
Board member

Lars Pettersson
Board member

Christine Robins
Board member

Kai Wörn
President and CEO
and Board member

Soili Johansson
Board member and
employee representative

Carita Svärd
Board member and
employee representative

Our audit report was issued on February 27, 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant



Auditor's report

To the general meeting of the shareholders of Husqvarna AB (publ), org nr 556000-5331

Report on the annual accounts and consolidated accounts *Opinions*

We have audited the annual accounts and consolidated accounts of Husqvarna AB (publ) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 41–110 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to

respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation and Existence of Inventory Description

Inventory represents a significant portion of the total assets of the Group. The value of inventory, net of provisions for obsolescence, as of December 31, 2019, was 10.9 billion SEK. The Group's inventory is carried at the lower of the acquisition value in accordance with the weighted average cost formula and the net realizable value. The net realizable value reflects the estimated write-down for older articles, physically damaged goods, excess inventory and selling expenses. The Group's pronounced seasonality in sales together with weather-dependent products increase the difficulty in estimating the value of inventory. We have consequently assessed that valuation and existence of inventory represents a key audit matter. Additional information regarding provisions for obsolescence as well as the portion of inventory which are carried at net realizable value after selling expenses are disclosed in group note 17 ("Inventory").

How our audit addressed this key audit matter

The existence of inventory is addressed in all entities that hold inventory. We have attended stock counts for all material inventory locations. We have performed audit procedures on the acquisition value of all inventories, from components to finished goods. Our audit to determine that inventory has been carried at the lower of acquisition value and net realizable value is performed by means of reviewing inventory aging as well as inventory turnover for each respective product grouping as well as by means of review of obsolete items. At the group level we have furthermore performed audit procedures related to the reserve for internal profits in inventory.

Impairment tests of goodwill and other assets with indefinite lives Description

Goodwill and other assets with indefinite useful lives amounted to 10.7 billion SEK as of December 31, 2019. Management conducts impairment tests annually as well as in cases where impairment indicators have been identified. The recoverable amount for each cash generating unit is determined as the value in use, which is computed under the discounted cash flow method based of forecasted future results. Key assumptions in these computations are expected growth, margin and appropriate discount rates. The impairment test process is to its nature based on assumptions and judgements, not least due to it being based on estimates of the future developments in the market and other financial factors that are affected by expected future market or economic conditions. The underlying computations are furthermore complex. We have consequently assessed that goodwill and other assets with indefinite lives represent a key audit matter.

How our audit addressed this key audit matter

As part of our audit we have assessed and audited key parameters, the application of acknowledged valuation theory, the discount rate (referred to as WACC – "Weighted Average Cost of Capital") and

other source data that has been applied by the Group. We have for instance compared parameters applied to external data sources, such as expected inflation or assessments of future market growth and have assessed the sensitivity of the Group's valuation model. We have included valuation specialists in our audit team in order to perform this work. Specific emphasis has been placed on the sensitivity of the computations, including performing an independent assessment of whether there is a risk that reasonable likely events could give rise to a situation where the recoverable amount would be lower than the carrying amount. This assessment has also addressed the Group's historical success at prognostication.

We have finally assessed the appropriateness of disclosures in Group note 14 ("Intangible assets"), in particular with regards to the disclosures provided as to key sensitivities when computing the value in use.

Income taxes

Description

The Group conducts its operations in a significant amount of tax jurisdictions, all of which have their own rules and legislation regarding cross-border transactions. Consequently, the Group is subject to audits by local tax authorities in each country where they conduct operations. The parent company is the key party in a so-called principal structure and thus holds a number of patents, trademarks and similar assets. From time to time entities within the Group are subject to ongoing tax proceedings that may range from tax audits to tax litigation at multiple levels of the court systems. Tax liabilities, which to their nature are based on estimation, are material. Income taxes represent a key audit matter in that the underlying issues are complex, they are inherently judgmental, and the amounts involved are material.

How our audit addressed this key audit matter

We have audited the completeness and valuation of the amounts recorded as both current and deferred income taxes, including uncertain tax positions. For such matters we have as part of our audit procedures assessed communication with the tax authorities as well as performing an independent assessment of whether a provision is required or not. With regards to deferred tax assets we have reviewed the Group's assessments as to whether the carrying amount is expected to be realized by means of taxable income in the future, where tax planning opportunities may be considered. We have included tax professionals at both a corporate level and for the cross-border level in order to analyze and test the assumptions made upon reaching the Group's tax positions, including – as appropriate – validation of assumptions by obtaining audit evidence. As part of our audit we have used the Group's projections/assessments as well as applying our own understanding of each relevant tax legislation. We have – where relevant – assess the Group's historical ability to prognosticate the outcome of income tax matters. Finally, we have assessed the appropriateness of disclosures provided in group note 2 ("Key estimates and assumptions") as well as Group note 10 ("Tax").

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages

1–40 and 115–124. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Husqvarna AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Ernst & Young AB with Hamish Mabon as main responsible partner, P.O Box 7850 SE-103 99 Stockholm, was appointed auditor of Husqvarna AB by the general meeting of the shareholders on the April 9, 2019 and has been the company's auditor since the April 10, 2014.

Stockholm February 27, 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Allocation of the Consumer Brands Division

The Consumer Brands Division is reported as a separate division for 2018, but has been dissolved and integrated into the Husqvarna and Gardena divisions as of January 1, 2019. The European part, that accounted for approximately 15% Consumer Brands net sales, has been included in the Gardena Division and the remaining 85%, mainly related

to North America, has been included in the Husqvarna Division. The segment reporting in 2019 will consist of three divisions: Husqvarna, Gardena and Construction. A restatement of the segment reporting in the new structure is presented below.

Husqvarna

SEKm	Q1 2018	Allocation of CBD	Q1 2018 restated	Q2 2018	Allocation of CBD	Q2 2018 restated	Q3 2018	Allocation of CBD	Q3 2018 restated
Net sales	6,049	2,435	8,484	6,719	2,628	9,347	3,689	1,326	5,015
Operating income	1,070	-26	1,044	1,201	-47	1,154	-19	-325	-344
Excl. items affecting comparability*	1,070	-26	1,044	1,201	-47	1,154	47	-62	-15
Operating margin, %	17.7		12.3	17.9		12.3	-0.5		-6.9
Excl. items affecting comparability*	17.7		12.3	17.9		12.3	1.3		-0.3
Assets	15,948	5,593	21,541	15,155	5,214	20,369	13,669	4,073	17,742
Liabilities	5,301	1,562	6,863	4,856	1,442	6,298	3,707	884	4,591
Net Assets	10,647	4,031	14,678	10,299	3,772	14,071	9,962	3,189	13,151

SEKm	Q4 2018	Allocation of CBD	Q4 2018 restated	Full-year 2018	Allocation of CBD	Full-year 2018 restated
Net sales	3,323	987	4,310	19,780	7,376	27,156
Operating income	-140	-486	-626	2,112	-884	1,228
Excl. items affecting comparability*	-41	-36	-77	2,277	-171	2,106
Operating margin, %	-4.2		-14.5	10.7		4.5
Excl. items affecting comparability*	-1.2		-1.8	11.5		7.8
Assets	14,647	4,054	18,701	14,647	4,054	18,701
Liabilities	4,100	1,220	5,320	4,100	1,220	5,320
Net Assets	10,547	2,834	13,381	10,547	2,834	13,381

SEKm	Q1 2017 ¹	Allocation of CBD	Q1 2017 restated	Q2 2017 ¹	Allocation of CBD	Q2 2017 restated	Q3 2017 ¹	Allocation of CBD	Q3 2017 restated
Net sales	6,136	3,102	9,238	6,164	2,703	8,867	3,669	1,262	4,931
Operating income	1,032	22	1,054	1,180	70	1,250	388	-47	341
Operating margin, %	16.8		11.4	19.1		14.1	10.6		6.9
Assets	14,883	6,184	21,067	13,470	4,788	18,258	12,018	4,337	16,355
Liabilities	4,776	1,744	6,520	4,224	1,464	5,688	3,395	980	4,375
Net Assets	10,107	4,440	14,547	9,246	3,324	12,570	8,623	3,357	11,980

SEKm	Q4 2017 ¹	Allocation of CBD	Q4 2017 restated	Full-year 2017 ¹	Allocation of CBD	Full-year 2017 restated
Net sales	3,240	945	4,185	19,209	8,012	27,221
Operating income	127	-56	71	2,727	-11	2,716
Operating margin, %	3.9		1.7	14.2		10.0
Assets	12,741	4,430	17,171	12,741	4,430	17,171
Liabilities	3,856	1,025	4,881	3,856	1,025	4,881
Net Assets	8,885	3,405	12,290	8,885	3,405	12,290

SEKm	Full-year 2015	Allocation of CBD	Full-year 2015 restated	Full-year 2016	Allocation of CBD	Full-year 2016 restated
Net sales	17,624	8,174	25,798	17,960	7,325	25,285
Operating income	2,233	65	2,298	2,317	71	2,388
Excl. items affecting comparability*	2,284	89	2,373	2,317	71	2,388
Operating margin, %	12.7		8.9	12.9		9.4
Excl. items affecting comparability*	13.0		9.2	12.9		9.4
Assets	10,917	4,135	15,052	12,317	4,947	17,264
Liabilities	3,021	1,091	4,112	3,642	1,414	5,056
Net Assets	7,896	3,044	10,940	8,675	3,533	12,208

* Alternative Performance Measure, refer to the section "Definitions" for further information.

Gardena

SEKm	Q1 2018	Allocation of CBD	Q1 2018 restated	Q2 2018	Allocation of CBD	Q2 2018 restated	Q3 2018	Allocation of CBD	Q3 2018 restated
Net sales	2,059	424	2,483	2,770	555	3,325	1,368	196	1,564
Operating income	301	-37	264	585	10	595	113	-49	64
Excl. items affecting comparability*	301	-37	264	585	10	595	113	-47	66
Operating margin, %	14.6		10.6	21.1		17.9	8.3		4.1
Excl. items affecting comparability*	14.6		10.6	21.1		17.9	8.3		4.2
Assets	8,507	1,598	10,105	8,810	1,650	10,460	7,876	1,343	9,219
Liabilities	1,570	643	2,213	1,736	736	2,472	1,262	469	1,731
Net Assets	6,937	955	7,892	7,074	914	7,988	6,614	874	7,488

SEKm	Q4 2018	Allocation of CBD	Q4 2018 restated	Full-year 2018	Allocation of CBD	Full-year 2018 restated
Net sales	604	142	746	6,801	1,317	8,118
Operating income	-213	-285	-498	786	-361	425
Excl. items affecting comparability*	-213	-61	-274	786	-135	651
Operating margin, %	-35.3		-66.8	11.6		5.2
Excl. items affecting comparability*	-35.3		-36.7	11.6		8.0
Assets	8,091	1,307	9,398	8,091	1,307	9,398
Liabilities	1,126	636	1,762	1,126	636	1,762
Net Assets	6,965	671	7,636	6,965	671	7,636

SEKm	Q1 2017	Allocation of CBD	Q1 2017 restated	Q2 2017	Allocation of CBD	Q2 2017 restated	Q3 2017	Allocation of CBD	Q3 2017 restated
Net sales	1,715	595	2,310	2,326	533	2,859	1,033	222	1,255
Operating income	251	46	297	565	15	580	62	-50	12
Operating margin, %	14.6		12.9	24.3		20.3	6.0		1.0
Assets	7,853	1,792	9,645	7,781	1,511	9,292	6,959	1,273	8,232
Liabilities	1,218	808	2,026	1,385	627	2,012	991	417	1,408
Net Assets	6,635	984	7,619	6,396	884	7,280	5,968	856	6,824

SEKm	Q4 2017	Allocation of CBD	Q4 2017 restated	Full-year 2017	Allocation of CBD	Full-year 2017 restated
Net sales	556	171	727	5,630	1,521	7,151
Operating income	-172	-52	-224	706	-41	665
Operating margin, %	-30.9		-30.8	12.5		9.3
Assets	7,430	1,341	8,771	7,430	1,341	8,771
Liabilities	1,034	433	1,467	1,034	433	1,467
Net Assets	6,396	908	7,304	6,396	908	7,304

SEKm	Full-year 2015	Allocation of CBD	Full-year 2015 restated	Full-year 2016	Allocation of CBD	Full-year 2016 restated
Net sales	4,669	1,762	6,431	5,033	1,563	6,596
Operating income	586	-211	375	595	-68	527
Excl. items affecting comparability*	591	-209	382	595	-68	527
Operating margin, %	12.5		5.8	11.8		8.0
Excl. items affecting comparability*	12.7		5.9	11.8		8.0
Assets	6,434	1,308	7,742	6,952	1,312	8,264
Liabilities	735	608	1,343	808	589	1,397
Net Assets	5,699	700	6,399	6,144	723	6,867

* Alternative Performance Measure, refer to the section "Definitions" for further information.

Definitions

This report includes financial measures as required by the financial reporting framework applicable to Husqvarna Group, which is based on IFRS. In addition, there are other measures (alternative performance measures) used by management and other stakeholders to analyze trends and performance of the Group's operations that cannot be directly read or derived from the financial statements. Husqvarna stakeholders should not consider these as substitutes, but rather as additions, to the financial reporting measures prepared in accordance with IFRS. Please note that the alternative performance measures as defined, may not be comparable to similarly titled measures used by other companies. Refer below for a list of definitions of all measures and indicators used, referred to and presented in this report.

Computation of average amounts

In computation of key ratios where averages of capital balances are included, the average capital balances are based on the opening balance and all quarter-end closing balances included in the reporting period, i.e five quarters.

Growth measures

Net sales adjusted for changes in exchange rates

Change in net sales adjusted for currency translation effects. Net sales are also disclosed adjusted for currency translation effects as Husqvarna Group is a global company generating significant transactions in other currencies than the reporting currency (SEK) and the currency rates have proven to be volatile.

Net sales growth

Change in net sales compared to previous period in percent.

Organic growth

Change in net sales, adjusted for acquisitions, divestments and currency translation effects.

Profitability measures

EBITDA

EBITDA is a measure of earnings before interest, taxes, depreciation, amortization and impairment charges. EBITDA measures Husqvarna Group's operating performance and the ability to generate cash from operations, without considering the capital structure of the Group or its fiscal environment. For a reconciliation of EBITDA refer to table below the income statement.

EBITDA margin

EBITDA as a percentage of net sales.

Gross margin

Gross income as a percentage of net sales.

Last twelve months (LTM)

Last twelve months rolling has been included to assist stakeholders in their analysis of the seasonality that the Husqvarna Group's business is exposed to.

Operating margin

Operating income as a percentage of net sales.

Return on capital employed

Operating income plus financial income (last twelve months) as a percentage of average capital employed.

Return on equity

Net income attributable to equity holders of the Parent Company last twelve months as a percentage of average equity attributable to equity holders of the Parent Company.

Share-based measures

Earnings per share, after dilution

Net income attributable to equity holders of the Parent Company divided by the weighted average number of shares outstanding (net of treasury shares), after dilution.

Equity per share, after dilution

Equity attributable to equity holders of the Parent Company divided by the weighted average number of shares outstanding (net of treasury shares), after dilution.

Capital indicators

Capital employed

Total equity and liabilities less non-interest-bearing debt including deferred tax liabilities.

Capital expenditure

Investments in property, plant and equipment, right of use assets and intangible assets.

Interest bearing liabilities

Long-term and short-term borrowings, net pension liability and fair value derivative liabilities.

Liquid funds

Cash and cash equivalents, short-term investments and fair value derivative assets.

Net assets

Total assets excluding liquid funds and interest-bearing assets less operating liabilities, non-interest-bearing provisions and deferred tax liabilities.

Net debt

Net debt describes the Group's gearing and its ability to repay its debts from cash generated from the Group's ordinary business (see operating cash flow below), if they were all due today. It's also used to analyze how future net interest costs will impact earnings. Net debt is defined as total interest-bearing liabilities plus dividend payable, less liquid funds and interest-bearing assets. For a reconciliation of net debt refer to table below the balance sheet.

Operating working capital

Inventories and trade receivables less trade payables.

Capital measures

Equity/assets ratio

Equity attributable to equity holders of the Parent Company as a percentage of total assets.

Capital turnover rate

Net sales last twelve months divided with average net assets.

Net debt/EBITDA excl. items affecting comparability

Average net debt in relation to EBITDA last twelve months, excluding items affecting comparability.

Net debt/equity ratio

Net debt in relation to total equity.

Operating working capital/net sales

Average operating working capital as a percentage of net sales last twelve months.

Other measures

Direct operating cash flow

Direct operating cash flow is a measure of the cash generated by the Groups operating business. The measure is defined as EBITDA, excluding items affecting comparability, adjusted for change in trade payables, inventory and trade receivables and investments in property, plant and equipment and intangible assets. For a reconciliation of direct operating cash flow refer to the table below the cash flow statement.

Items affecting comparability

To assist in understanding Husqvarna Group's operations, we believe that it is useful to consider certain measures and ratios exclusive of items affecting comparability. Items affecting comparability includes items that are non-recurring, have a significant impact and are considered to be important for understanding the operating performance when comparing results between periods. The items affecting comparability are disclosed on page 43. All measures and ratios in this report have been disclosed including items affecting comparability first and then excluding items affecting comparability as a second measure when deemed appropriate.

Operating cash flow

Operating cash flow is a measure of the amount of cash generated by the Group's ordinary business operations. The measure is defined as total cash flow from operations and investments, excluding acquisitions and divestments of subsidiaries/operations, divestments of property plant and equipment and investments/divestments of financial assets. For a reconciliation of operating cash flow refer to table below the cash flow statement.

Five-Year Review

Income and key ratios, SEKm	2019	2018 ¹	2017 ^{1,5}	2016 ¹	2015 ¹
Net sales	42,277	41,085	39,394	35,982	36,170
Husqvarna	27,506	27,156	27,221	25,285	25,798
Gardena	8,343	8,118	7,151	6,596	6,431
Construction	6,340	5,762	5,015	4,101	3,941
Gross income	12,529	10,502	11,472	11,096	10,174
Gross margin, %	29.6	25.6	29.1	30.8	28.1
EBITDA*	5,779	4,000	5,105	4,382	3,980
EBITDA margin, %	13.7	9.7	13.0	12.2	11.0
Operating income	3,690	2,070	3,790	3,218	2,827
Operating income excl. items affecting comparability*	3,915	3,241	3,790	3,218	2,980
Operating margin, %	8.7	5	9.6	8.9	7.8
Operating margin excl. items affecting comparability, %*	9.3	7.9	9.6	8.9	8.2
Husqvarna excl. items affecting comparability, %*	8.8	7.8	10.0	9.4	9.2
Gardena excl. items affecting comparability, %*	10.2	8	9.3	8.0	5.9
Construction excl. items affecting comparability, %*	13.2	12.4	12.9	13.9	11.8
Income after financial items	3,122	1,561	3,290	2,796	2,483
Net Income	2,528	1,213	2,660	2,104	1,888
Of which depreciation, amortization and impairment	-2,089	-1,930	-1,315	-1,164	-1,153
Financial position and key ratios, SEKm	2019	2018¹	2017^{1,5}	2016¹	2015¹
Total assets	41,981	38,607	35,418	32,978	29,669
Net assets	28,565	25,883	22,866	21,198	19,436
Husqvarna	15,371	10,547	8,885	8,675	7,896
Gardena	7,733	6,965	6,394	6,144	5,699
Construction	5,833	5,366	4,596	2,967	2,718
Operating working capital	10,379	10,058	8,831	8,763	7,923
Total equity	17,283	16,009	15,667	14,365	13,061
Net debt*	11,315	9,875	7,199	6,833	6,375
Return on capital employed, %	12.9	7.6	14.7	13.7	12.4
Return on equity, %	14.7	7.3	17.4	15.2	14.6
Capital turn-over rate, times	1.5	1.6	1.7	1.7	1.7
Net debt/equity ratio	0.65	0.62	0.46	0.48	0.49
Equity/assets ratio, %	41	41	44	44	44
Cash flow, SEKm	2019	2018¹	2017^{1,5}	2016¹	2015¹
Operating cash flow* ²	2,676	-248	1,847	1,666	1,732
Capital expenditure	2,232	2,235	1,892	1,889	1,388
Other key ratios	2019	2018¹	2017^{1,5}	2016¹	2015¹
Earnings per share after dilution, SEK	4.42	2.12	4.62	3.66	3.28
Equity per share after dilution, SEK	30.2	28.0	27.3	25	22.7
Average number of shares after dilution, millions	572.4	572.3	574.2	574.1	574.2
Dividend per share, SEK ³	2.25	2.25	2.25	1.95	1.65
Dividend pay-out ratio, % ⁴	51	106	48	53	50
Salaries and remunerations, SEKm	5,833	5,712	5,121	4,680	4,508
Average number of employees	12,708	13,206	13,252	12,704	13,572

¹ Restatement of divisions due to allocation of the Consumer Brands Division, refer to "Allocation of the Consumer Brands Division".

² Hedges related to financing have been moved from operations to financing activities (SEK -64m for 2015). The equivalent amount has affected the operating cash flow.

³ As proposed by the Board.

⁴ Dividend pay out ratio is defined as total dividend in relation to the net income excluding non-controlling interest.

⁵ Restatement of 2017 due to IFRS 15 transition, reclassification of certain exchange rate effects, and reclassification of certain sales between segments.

* Alternative Performance Measure, refer to section "Definitions" for further information.

Quarterly Data

Income, SEKm	Year	Q1	Q2	Q3	Q4	Full-year
Net sales	2019	13,651	13,789	8,429	6,408	42,277
	2018	12,303	14,270	8,042	6,470	41,085
	2017	12,746	13,069	7,449	6,130	39,394
Operating income	2019	1,644	2,125	414	-493	3,690
	2018	1,373	1,925	-124	-1,104	2,070
	2017	1,425	2,002	433	-70	3,790
Operating income excl. items affecting comparability*	2019	1,686	2,125	414	-310	3,915
	2018	1,373	1,925	225	-282	3,241
	2017	1,425	2,002	433	-70	3,790
Operating margin excl. items affecting comparability, %*	2019	12.3	15.4	4.9	-4.8	9.3
	2018	11.2	13.5	2.8	-4.4	5.0
	2017	11.2	15.3	5.8	-1.1	9.6
Income for the period	2019	1,140	1,506	269	-387	2,528
	2018	940	1,380	-185	-922	1,213
	2017	988	1,401	210	61	2,660
Earnings per share after dilution, SEK	2019	1.99	2.63	0.47	-0.67	4.42
	2018	1.64	2.41	-0.32	-1.61	2.12
	2017	1.72	2.43	0.37	0.1	4.62
Financial position, SEKm	Year	Q1	Q2	Q3	Q4	Full-year
Net debt*	2019	13,548	11,340	11,609	11,315	11,315
	2018	9,198	8,862	8,040	9,875	9,875
	2017	9,800	7,602	6,440	7,199	7,199
Operating working capital	2019	13,889	12,224	11,238	10,379	10,379
	2018	12,243	12,069	10,107	10,058	10,058
	2017	12,561	10,768	9,215	8,831	8,831
Net sales by Division, SEKm	Year	Q1	Q2	Q3	Q4	Full-year
Husqvarna	2019	9,506	8,688	5,204	4,108	27,506
	2018 ^{1,2}	8,484	9,347	5,015	4,310	27,156
	2017 ^{1,2}	9,238	8,867	4,931	4,185	27,221
Gardena	2019	2,630	3,373	1,630	710	8,343
	2018 ^{1,2}	2,483	3,325	1,564	746	8,118
	2017 ^{1,2}	2,310	2,859	1,255	727	7,151
Construction	2019	1,494	1,720	1,575	1,551	6,340
	2018	1,328	1,590	1,446	1,398	5,762
	2017	1,197	1,341	1,260	1,217	5,015
Operating margin by Division, %	Year	Q1	Q2	Q3	Q4	Full-year
Husqvarna	2019	12.5	14.0	1.6	-5.5	8.2
	2018 ^{1,2}	12.3	12.3	-6.9	-14.5	10.7
	2017 ^{1,2}	11.4	14.1	6.9	1.7	14.2
Gardena	2019	14.1	20.8	7.4	-49.0	10.2
	2018 ^{1,2}	10.6	17.9	4.1	-66.8	11.6
	2017 ^{1,2}	12.9	20.3	1.0	-30.8	12.5
Construction	2019	11.8	15.5	14.6	6.8	12.3
	2018	11.9	15.8	13.3	5.0	11.7
	2017	11.8	17.4	11.4	10.9	12.9

* Alternative Performance Measure, refer to section "Definitions" for further information.

¹ Restated due to reclassification of certain sales between segments.

² Restatement due to allocation of the Consumer Brands Division, refer to "Allocation of the Consumer Brand Division".

The Share

Listing and trading volume

The Husqvarna AB shares have been listed on Nasdaq Stockholm since June 2006. A total of 390 million shares (433) were traded in 2019, with a total value of SEK 30bn (33), corresponding to an average daily trading volume of 1.6 million shares (1.8) or SEK 122m (132). The turnover velocity for the B-share was 84 percent (89) in 2019. During 2019, the price of the B-share increased 14 percent to SEK 75 (66). According to the EU Markets in Financial Instruments Directive (MiFID), a share can also be traded on a "Multilateral Trading Facility" (MTF), i.e. on markets other than the stock exchange where it is listed. The Husqvarna AB share is traded on several MTFs including BATS Chi-X and Turquoise. However, the Nasdaq Stockholm exchange accounts for the majority of trading.

Dividend and dividend policy

The Board of Directors has proposed a dividend of SEK 2.25 per share (2.25) for 2019, divided into two payments. SEK 0.75 to be paid in April, 2020 and SEK 1.50 to be paid in October, 2020. The dividend represents 51 percent (106) of net income. The policy is that the dividend normally shall exceed 40 percent of net income.

Share swap agreement

At year-end, the total number of Husqvarna AB shares held by a third party as a share swap agreement amounted to 4,141,164 B-shares (4,670,416) corresponding to 0.7 percent (0.8) of the total number of outstanding shares. The purpose of the share swap agreement is to hedge obligations under the Group's long-term incentive programs.

Conversion of shares

Shareholders who hold A-shares are entitled to convert their A-shares into B-shares. 421,922 A-shares were converted to B-shares in 2019.

Analyst coverage

There are currently around 10 analysts who analyze and follow Husqvarna Group and give recommendations on the share.

ADR

Husqvarna Group sponsors a Level 1 American Depositary Receipt (ADR) program in the US. The ADRs, which each represent two ordinary B-shares, are publicly traded in the US on the OTC Market, under symbol HSQVY. The ADR is a USD denominated security, and the associated dividends are paid to investors in USD. Citibank is ADR depositary bank.

Key facts

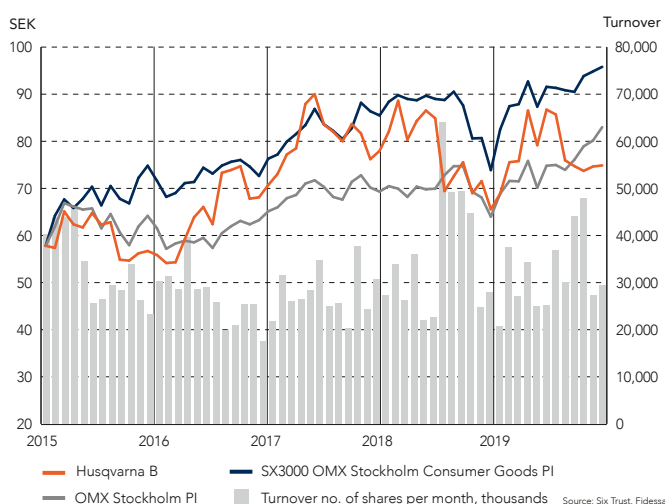
Husqvarna AB shares

Listing:	Nasdaq Stockholm
Number of shares:	576,343,778
Market capitalization at year-end 2019:	SEK 43bn
Ticker codes:	Bloomberg: HUSQA SS, HUSQB SS Thomson Reuters: HUSQa.ST, HUSQb.ST Nasdaq Stockholm: HUSQ A, HUSQ B
ISIN codes:	A-share SE0001662222 B-share SE0001662230

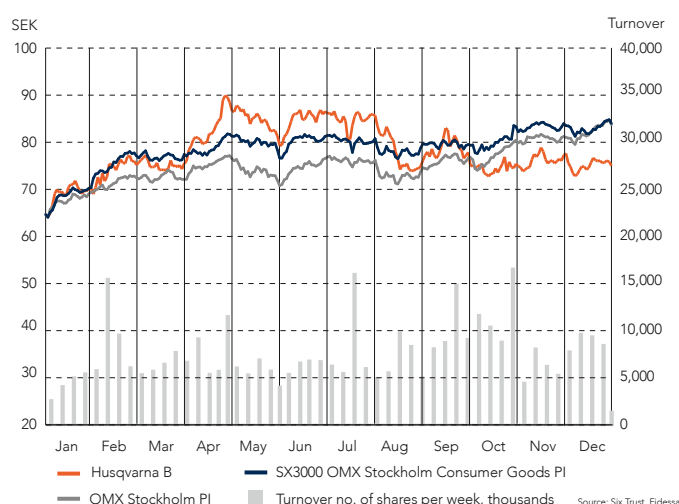
Husqvarna ADR

Ticker code:	HSQVY
ISIN code:	US4481031015
Ratio:	Two ordinary B-shares equal one ADR

Husqvarna B, price development 2015–2019



Husqvarna B, price development 2019



Share capital and number of shares

	Share capital, SEK	Quotient value, SEK	Number of A-shares	Number of B-shares	Total number of shares
Husqvarna before listing 2006	495,000,000	100			4,950,000
2006: stock-split and bonus issue	592,518,306	2	9,502,275	286,756,878	296,259,153
2007: bonus issue	770,273,790	2	98,380,020	286,756,875	385,136,895
2008: no transactions	770,273,790	2	98,380,020	286,756,875	385,136,895
2009: rights issue	1,152,687,556	2	147,570,030	428,773,748	576,343,778
2010: conversion from A-shares to B-shares	1,152,687,556	2	134,755,087	441,588,691	576,343,778
2011: conversion from A-shares to B-shares	1,152,687,556	2	129,460,339	446,883,439	576,343,778
2012: conversion from A-shares to B-shares	1,152,687,556	2	127,699,058	448,644,720	576,343,778
2013: conversion from A-shares to B-shares	1,152,687,556	2	126,593,868	449,749,910	576,343,778
2014: conversion from A-shares to B-shares	1,152,687,556	2	122,425,469	453,918,309	576,343,778
2015: conversion from A-shares to B-shares	1,152,687,556	2	113,694,826	462,648,952	576,343,778
2016: conversion from A-shares to B-shares	1,152,687,556	2	113,393,909	462,949,869	576,343,778
2017: conversion from A-shares to B-shares	1,152,687,556	2	112,513,001	463,830,777	576,343,778
2018: conversion from A-shares to B-shares	1,152,687,556	2	112,437,551	463,906,227	576,343,778
2019: conversion from A-shares to B-shares	1,152,687,556	2	112,015,629	464,328,149	576,343,778

Largest shareholders in Husqvarna AB

Ägare	Capital, %	Votes, %
Investor	16.8%	33.1%
Lundbergföretagen AB	7.6%	25.1%
Handelsbanken Fonder	4.9%	1.8%
Didner & Gerge Fonder	4.5%	2.7%
Swedbank Robur Fonder	4.4%	1.6%
Andra AP-fonden	2.4%	0.9%
BlackRock	2.3%	0.8%
Lannebo Fonder	2.3%	1.7%
Vanguard	2.2%	0.8%
Fjärde AP-fonden	1.4%	0.5%
Summa för de tio största ägarna	48.8%	69.0%
Övriga	51.2%	31.0%
Totalt	100.0%	100.0%

Shareholding by size in Husqvarna AB

Size of holding	Capital, %	Votes, %
1 – 1,000	2.4%	2.3%
1,001 – 10,000	4.7%	4.0%
10,001 – 100,000	3.7%	2.3%
100,001 – 1,000,000	8.7%	4.3%
1,000,001 –	73.2%	83.7%
Anonymous ownership	7.4%	3.4%
Totalt	100.0%	100.0%

Distribution of shareholders by country



Share data

	2019	2018	2017
Earnings per share, SEK	4.42	2.12	4.64
Earnings per share after dilution, SEK	4.42	2.12	4.62
Operating cash flow per share, SEK	4.64	-0.43	3.23
Operating cash flow per share, after dilution, SEK	4.64	-0.43	3.22
Equity per share after dilution, SEK	30.2	28.0	27.3
Dividend per share, SEK ¹	2.25	2.25	2.25
Yield, % ²	3.0	3.4	2.9
Dividend payout ratio, %	51	106	48
Year-end price, A-share, SEK	75	66	78
Highest price, A-share, SEK	92	90	91
Lowest price, A-share, SEK	64	63	68
Year-end price, B-share, SEK	75	66	78
Highest price, B-share, SEK	92	90	92
Lowest price, B-share, SEK	64	63	68
Number of shareholders	63,153	60,005	56,601
Market capitalization, SEKm	43,237	37,855	44,984

¹ Dividend 2019 as proposed by the Board.

² Dividend/year-end share price.

Source: Holdings/Euroclear as of December 31, 2019.

Further information concerning the share

The following information, and more, is available on www.husqvarnagroup.com

- Share price development
- Shareholder ownership structure
- Conversion of A-shares
- Analyst coverage
- Repurchase of shares
- Share capital

Turning technology into **opportunity**

For 330 years, curiosity and passion for innovation have led to a long line of successful products and solutions in very different areas – from weapons, sewing machines and motorcycles to market-leading outdoor power products for customers around the globe. Husqvarna Group constantly looks for better ways to push the industry forward and make a difference to those who shape green spaces and urban environments through leadership in sustainable, user-centered solutions

Heritage



1689–1989
Weapons factory



1872–1997
Sewing machine



1874–1978
Kitchen equipment



1903–1987
Motorcycles



1995
Robotic
lawn mower

1689–1989 / Weapons factory

When Swedish weapons production takes off in the late 17th century, hydropower is needed to handle certain mechanical operations. The drill works at the waterfalls in Huskvarna in southern Sweden is the first production facility. The last shotgun is produced in 1989.

1872–1997 / Sewing machines

The machinery for producing rifles turns out to be well suited for manufacturing sewing machines. The operation is divested in 1997.

1874–1978 / Kitchen equipment

Production expands to kitchen equipment in cast iron such as meat grinders and later, stoves and ovens. Husqvarna's meat grinders are a huge export success with over 12 million sold worldwide.

1896–1962 / Bicycles

Husqvarna bicycles become very popular and many patents are registered. The last Husqvarna bicycle is produced in 1962.

1903–1987 / Motorcycles

Lightweight yet powerful engines give Husqvarna a reputation worldwide as the producer of the most successful track racing and motocross bikes. The operation is divested in 1987.

1918 / Lawn mowers

When Norrahammars Ironworks in Sweden is acquired, the product range expands to include heating boilers and lawn mowers. Husqvarna's first motorized lawn mower for commercial use is manufactured in 1947.

1959 / Chainsaws

As demand for bicycles, mopeds and motorcycles declines, Husqvarna's expertise in engines leads to new product areas. 1959 marks the start of the production of chainsaws.

1968 / Construction products

Husqvarna's first power cutter is a redesigned chainsaw.

1969 / Anti-vibration

Launch of the world's first chainsaw with an integrated anti-vibration system that decreases the risk for forestry workers of getting "vibration white fingers." Ergonomics has been an important part of Husqvarna's design ever since.

1973 / Automatic chain brake

The world's first automatic chain brake followed by the Trio Brake™ (1999) decreases the risk of injury for forestry workers.

1978 / Outdoor products in focus

Electrolux acquires Husqvarna and outdoor product operations continue to expand through acquisitions such as AB Partner and Jonsereds AB.

1980s / Strengthened position in US

Organic growth and the acquisitions of Poulan/WeedEater and Roper Corp expand the Group's operations in the US.



2009
Demolition
robot

2012
Powerful battery
products

2016
Chainsaw chain
and Gardena Smart
System

2017
New generation
chainsaws

2018
Four-wheel drive
professional robotic
lawn mower

2019
EPOS™, satellite-
based technology

1995 / Robotic lawn mower

Husqvarna pioneers the world's first commercialized solar-powered robotic mower.

2002 / Diamond tools

The construction business doubles in size through the acquisition of Diamant Board.

2005 / X-Torq®

New engine technology for two-stroke engines increases gear ratio while reducing fuel consumption and emissions.

2006 / Stocklisted

Husqvarna is listed on Nasdaq Stockholm.

2007 / Watering equipment and expansion in Japan

The acquisitions of Gardena, Zenoah and Klippo bring strong brands, complementary products and geographic expansion.

2008 / Expanded presence in China

Production in China is increased through the acquisition of Jenn Feng and a new production facility.

2009 / Demolition robot

Husqvarna's first remote-controlled demolition robot is launched.

2009 / AutoTune™

AutoTune™ is a technological and environmental breakthrough in professional chainsaws. It regulates the flow of fuel, optimizing performance and minimizing emissions.

2012 / Powerful battery products

Husqvarna's battery products demonstrate similar performance as petrol-powered machines, but without the noise and direct emissions.

2016 / Chainsaw chain

Husqvarna's first proprietary saw chain, X-CUT, was launched. Its excellent cutting performance optimizes the chainsaw experience.

2016 / Gardena Smart System

The market's first connected and automated system that integrate garden watering and robotic lawnmowing, is launched.

2017 / New generation professional chainsaws

The launch of a new generation of chainsaws designed for the most demanding, professional users begins with the Husqvarna 572 XP®.

2018 / Professional robotic lawn mowers

Husqvarna launches robotic lawn mowers designed for professional use, including the first with four-wheel-drive.

2019 / EPOS™

Introducing Husqvarna EPOS™ (Exact Positioning Operating System), a satellite-based technology that enables robotic mowing with virtual boundaries.

2020 Annual General Meeting

The 2020 Annual General Meeting ("AGM") of Husqvarna AB (publ) will be held at 4:00 p.m. on Thursday, April 2, 2020 at the Elmia Congress Center, Hammarskjöld Hall, Elmiavägen 15, Jönköping, Sweden.

Participation

Shareholders who intend to participate in the AGM must:

- Be registered in the register of shareholders maintained by Euroclear Sweden AB as of Friday, March 27, 2020.
- Notify the Company of their intention to attend, stating the number of assistants attending (maximum two), no later than Friday, March 27, 2020.

Notice of participation

Notice of intent to participate can be given:

- At www.husqvarnagroup.com.
- By telephone at +46 36 14 70 10 between 9:00 a.m. and 4:00 p.m. weekdays.
- By post to Husqvarna AB, c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden.

Notice should include the shareholder's name, social security number or company registration number if any, address and telephone number. Information provided together with the notice will be made subject to data processing and will be used solely for the 2020 AGM. Shareholders may vote by proxy, in which case a power of attorney must be submitted to Husqvarna AB prior to the AGM.

Shares registered by nominees

To participate in the AGM, shareholders whose shares are nominee registered must have their shares temporarily registered in their own name on Friday, March 27, 2020. To ensure that such registration is made prior to Friday, March 27, 2020, shareholders must inform the nominee well in advance of this date.

Dividend

The Board of Directors has proposed a dividend for financial year 2019 of SEK 2.25 per share to be paid in two installments, firstly SEK 0.75 per share with Monday, April 6, 2020 as the first record day, secondly SEK 1.50 per share with Tuesday, October 6, 2020 as the second record day. Assuming the AGM resolves in accordance with the Board of Directors' proposal, the estimated date for payment of the dividend from Euroclear Sweden AB is Thursday, April 9, 2020 for the first part of the dividend and Friday, October 9, 2020 for the second part.

The last day for trading in Husqvarna AB shares with a right to the first part of the dividend is Thursday, April 2, 2020. The last day for trading in Husqvarna AB shares with a right to the second part of the dividend is Friday, October 2, 2020.

For information on how your personal data is processed, see www.euroclear.com/dam/ESw/Legal/Privacy-noticebolagsstammor-engelska.pdf

Financial calendar 2020

April 2	Annual General Meeting
April 24	Interim Report January–March
July 16	Interim Report January–June
October 20	Interim Report January–September

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Market data, statistics and market shares are estimates made by Husqvarna Group.

Factors affecting forward-looking statements

This report contains forward-looking statements in the sense referred to in the American Private Securities Litigation Reform Act of 1995. Such statements comprise, among other things, financial goals, goals of future business and financial plans. These statements are based on present expectations and are subject to risks and uncertainties that may give rise to major deviations of the result due to several aspects. These aspects include, among other things: consumer demand and market conditions in the geographical areas and lines of business in which Husqvarna Group operates, the effects of currency fluctuations, downward pressure on prices due to competition, a material reduction of sales by important distributors, any success in developing new products and in marketing, outcome of any product responsibility litigation, progress when it comes to reach the goals set for productivity and efficient use of capital, successful identification of growth opportunities and acquisition objects, and to integrate these into the existing business and successful achievement of goals to make the supply chain more efficient.



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Group**

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